

# Critical Choices:

## How Colleges Can Help Students and Families Make Better Decisions about Private Loans



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## Executive Summary

Every year millions of students and families sit around their kitchen tables and grapple with how they are going to pay for college. All too often they approach what may be the most important financial decision of their lives armed with incomplete, confusing, or inaccurate information about their options.

Student loans have become a fact of life for many college students. For example, at least two-thirds of all students who graduate from four-year colleges use student loans to help cover the cost. The type of loans they choose can dramatically affect the financial health of students — and their families — long after they leave school. One borrower who graduated with \$41,000 in federal loans and \$36,000 in private loans had been told that private student loans were just like federal student loans. She first realized that was not the case when the interest rate on her private loans kept going up each month. She was able to stay in good standing on her federal loans by tapping available consumer protections, but her private loans ended up in default, even though she continued to pay what she could afford.

There is general consensus that students should exhaust all available federal financial aid, including federal loans, before considering other forms of financing like private student loans. Federal loans are available to students regardless of their or their family's income.

Private student loans are one of the riskiest ways to pay for college, and they are not financial aid any more than a credit card is when used to pay for textbooks or tuition. They typically have uncapped, variable interest rates and cost the most for those who can least afford them, while federal student loans have fixed interest rates that are not affected by the borrower's income or credit score. Private student lenders are not required to provide the important borrower options and protections that come with federal loans, such as unemployment deferments, income-based repayment, public service loan forgiveness, and cancellation if the borrower dies, is severely disabled, or is defrauded by a school. Before the recent credit crisis, many lenders profited by making subprime private student loans that put borrowers at high risk of default. An analysis of financial data from major lenders suggests that 360,000 to 540,000 borrowers will end up defaulting on more than \$5 billion in subprime private student loans.

Unfortunately, many students borrow private loans when they could borrow safer federal loans instead. Recent data show that the *majority* of undergraduates with private loans took out less than they could have in federal loans. **In other words, millions of students every year are missing out on what could be thousands of dollars in federal student loans, and instead signing up for much riskier private loans — a decision that could have devastating and lifelong financial consequences.**

With so much resting on these decisions, one must ask: Why are so many students and families ending up with risky private student loans instead of safer federal student loans? And what could colleges and policymakers be doing to reduce the unnecessary use of private loans?

College financial aid offices have a unique opportunity — and responsibility — to help students and families make informed and careful decisions about both how, and how much, to borrow. This report attempts to shed light on ways that colleges can help students and their families avoid unnecessarily risky and costly debt.

To learn about current college practices, we interviewed financial aid administrators at 22 varied colleges around the country and examined financial aid award letters from several additional colleges. Currently, most private student lenders require colleges to confirm basic information about the student's enrollment and costs before the lender will issue a private loan. This "school certification" process gives colleges a powerful opportunity to help students make sound borrowing decisions. We focused primarily on college practices related to school certification, and in the process identified some additional notable practices. In short, **we learned that a college's actions and involvement at crucial decision points in the borrowing process can have an enormous impact on whether students and their families make sound and informed choices about private student loans.**

Our findings clearly demonstrate that colleges of various types, sizes and locations have taken meaningful steps to provide prospective private student loan borrowers with timely information about their options, and that such efforts can help reduce unnecessarily risky borrowing.

### Some of our key findings include:

- Students and families who apply for private loans are often misinformed about, or unaware of, the availability and benefits of federal loans and the risks of private loans.
- Different types of schools are making promising efforts to reach students who apply for private loans before they sign on the dotted line. The most comprehensive college policies require counseling for all known private loan applicants, while more targeted approaches focus on those who have not maximized their use of federal loans.
- The promising practices we identified provide useful models for all colleges, regardless of their size, cost, or financial resources. These practices can both inform students about their financial aid options at key decision points and help reduce the number of students taking on riskier private student loans.
- While all financial aid administrators we interviewed said they believed private loans should only be used as a last resort, we found some problematic practices that bypassed the best opportunities to help students avoid unnecessary private loans.
- Efforts to limit reliance on private loans are often informal and may be implemented unevenly depending on particular staff members' knowledge and interests rather than being institutionalized as official college policy.
- When lenders do not ask the college to confirm enrollment and cost information before approving a private student loan (i.e., when they make an "uncertified" private loan), the financial aid office may never know that the student has borrowed a private loan. At some colleges, the financial aid office works with the bursar's or cashier's office to try to identify uncertified private loans so they can counsel the borrowers.
- Some colleges include risky private loans in students' financial aid offers, giving the false impression that this type of private financing is a form of financial aid.
- Only some of the colleges with promising practices take steps to document the impact of their efforts. Among those that do, several find that about half of private loan applicants contacted reduce their private loan borrowing.
- Most of the financial aid officials we interviewed had limited knowledge of other colleges' policies and practices.

In recent years, interest has grown in requiring lenders to seek school certification for all private student loans, so that colleges are aware of all loan applications and have the opportunity to counsel students about their options. (For details see "Policy and Market Context" below.) However, schools can still take steps to counsel students about those private loans of which they are aware. We recommend that colleges review their policies and practices that might affect students' borrowing decisions, and institutionalize procedures to help students reduce their use of private student loans whenever possible. **We urge colleges to adopt promising practices such as those identified in this report:**

- Require counseling before certifying private loans for all applicants if resources allow, and for at least those who have not maximized their use of grants and federal student loans.
- Formalize policies and practices aimed at reducing private student loan usage.
- Coordinate between offices, especially the financial aid and bursar's offices, to track payments from uncertified private loans, and use the information to quickly contact and counsel the borrowers.
- Do not include private student loans in financial aid offers, which can give the false impression that private loans are a form of financial aid.
- Use available tools to speed up the federal loan process, so students who need quick access to loan funds are not left only with private loan options.
- Track outcomes: the number of students who applied for and took out private student loans, how much they borrowed, whether they maximized federal loans first, and what kind of counseling or outreach, if any, they received.
- Share both promising practices and actual outcomes with other colleges and the broader field.

## Important Differences Between Private and Federal Student Loans

Student loans have become a fact of life for many college students. For example, at least two-thirds of all students who graduate from four-year colleges use student loans to help cover the cost at some point during their undergraduate careers.<sup>1</sup> Experts agree that students and their families should exhaust all of their federal aid options — including federal student loans — before even considering riskier private student loans.<sup>2</sup> Still, nearly one in seven undergraduates across all types of colleges and programs used a private student loan in academic year 2007–08, the most recent year for which data are available.<sup>3</sup> Disturbingly, *the majority of these borrowers turned to private loans before taking out all they could have in safer and more affordable federal loans*, including almost one in four who did not take out any federal loans at all.<sup>4</sup> Despite a drop in overall volume during the recent credit crunch, students are still using billions of dollars in private loans each year and there are signs that private loan volume is rising again. (See “Market Context” below for more on the private loan market.)

While the differences between federal and private student loans are not always clear to borrowers at the start, they quickly become apparent once the payments come due. The jargon and complexity of the college financial aid process can make it hard for consumers to distinguish between federal and private student loans, or to recognize the implications of taking out one type of loan versus another.<sup>5</sup> During repayment, borrowers are often surprised to learn that different interest rates, loan terms, and repayment options apply to these two categories of loans.

Federal student loans are now made solely through the U.S. Department of Education’s Direct Loan program, but until July 2010 federal student loans were also offered by private banks and lenders.<sup>6</sup> Throughout this report, the term “private student loan” refers to non-federal student loans made by banks and lenders, many of which used to make federal student loans as well.<sup>7</sup> With so many potential products and lenders, it is easy to understand how students and their families could be unclear about exactly what type of student loan they were getting.

**Federal Student Loans:** Federal student loans are designed to help ensure broad access to affordable financing for higher education and training, and they are a form of financial aid. Borrowers can count on fixed, affordable interest rates, low fees, and important consumer protections, repayment options, and forgiveness programs backed by federal tax dollars. Examples include the Income-Based Repayment plan, which caps payments at a manageable share of income; deferments while in school and during periods of unemployment or certain types of public service; and the right to cancel outstanding debt if a borrower dies or is severely disabled, or if the borrower’s school shuts down before completion of a program. Federal loan terms and conditions are set by Congress, and they are the same for all borrowers regardless of their income, credit score, or where they go to school.

Almost all students who are U.S. citizens or permanent residents, and who are attending college at least half-time, are eligible for federal student loans. There are no income limits or credit checks. This report focuses on undergraduate borrowing, and federal data show that 86 percent of undergraduates were likely eligible for federal loans

<sup>1</sup> The Project on Student Debt. 2010. *Quick Facts about Student Debt*. [http://projectonstudentdebt.org/files/File/Debt\\_Facts\\_and\\_Sources.pdf](http://projectonstudentdebt.org/files/File/Debt_Facts_and_Sources.pdf).

<sup>2</sup> See: U.S. Department of Education. *Federal Aid First*. Federal Student Aid. <http://federalstudentaid.ed.gov/federalaidfirst/>. Accessed November 12, 2010; National Association of Student Financial Aid Administrators (NASFAA). *Cash for College*. <http://www.nasfaa.org/WorkArea/DownloadAsset.aspx?id=3304>. Accessed March 18, 2011; On its website, private lender Wells Fargo states: “We recommend that you consider all your no-cost and low-cost options first, including grants, scholarships, and federal student loans. Federal student loans offer a low, fixed interest rate, and the most flexible options for repayment. If you’ve exhausted all your low-cost funding options and still have educational expenses to cover, consider our private student loans.” Wells Fargo. *Private Student Loans for Undergraduates – Education Connection Loan from Wells Fargo*. <https://www.wellsfargo.com/student/loans/undergrad/educationconnection>. Accessed December 11, 2010.

<sup>3</sup> The Project on Student Debt. 2009. *Private Loans Facts and Trends*. [http://projectonstudentdebt.org/files/pub/private\\_loan\\_facts\\_trends\\_09.pdf](http://projectonstudentdebt.org/files/pub/private_loan_facts_trends_09.pdf). Unless otherwise specified, the data and descriptions of policies in this report apply to domestic U.S. undergraduate students, excluding those whose citizenship or residency status makes them ineligible for federal loans.

<sup>4</sup> Calculations by the Project on Student Debt using data from U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2007–08.

<sup>5</sup> See: Consumers Union. 2007. *Helping Families Finance College: Improved Student Loan Disclosures and Counseling*. <http://www.consumersunion.org/pdf/CU-College.pdf>. Accessed March 10, 2011.

<sup>6</sup> See: Representative George Miller. *Groundbreaking Health Insurance and Student Loan Reforms Heading to President Obama*. Press release. <http://georgemiller.house.gov/2010/03/groundbreaking-health-insuranc.shtml>. Accessed March 10, 2011; *Health Care and Education Reconciliation Act of 2010*, Pub. L. No. 111-152, 124 Stat. 1029 (2010). <http://www.gpo.gov/fdsys/pkg/PLAW-111publ152/pdf/PLAW-111publ152.pdf>. Accessed March 10, 2011.

<sup>7</sup> Some states and colleges also offer non-federal student loans. While some of these loan programs may have certain features that are similar to or rival federal student loans, such as relatively low fixed interest rates, the fact that the loan comes from a state agency or directly from the college does not guarantee its affordability or consumer friendliness.



in 2007–08.<sup>8</sup> Federal student loans are available to undergraduates with annual and cumulative limits, and federal PLUS loans are available to parents of younger undergraduates up to the full cost of attendance. For more about federal student loans, see the chart below.

Summary of Major Federal Student Loans and Grants for Undergraduates, 2010-11					
	Pell Grants	Stafford Loans		PLUS Loans	Perkins Loans
		Subsidized	Unsubsidized		
Interest Rate	N/A	4.5% fixed rate (3.4% in 2011-12)	6.8% fixed rate	7.9% fixed rate	5.0% fixed rate
Amount	Up to \$5,550/year  Amount depends on financial need, cost of attendance, and enrollment status (full time/part time)	Dependent students (under age 24, with limited exceptions):  Up to \$5,500 to \$7,500 per year, depending on year in school (maximum \$3,500 to \$5,500 subsidized, depending on year in school)  Up to \$31,000 total (maximum \$23,000 subsidized)  Independent students (and dependent students whose parents do not qualify for PLUS loans):  Up to \$9,500 to \$12,500 per year, depending on year in school  Up to \$57,500 total (maximum \$23,000 subsidized)		Cost of attendance minus other financial aid received	\$5,500/year; \$27,500 total.  Eligibility and amount depend on financial need
Benefits	Do not need to be paid back	No interest while enrolled at least half time for Subsidized Stafford Loans or Perkins Loans  Fixed interest rate will not change during the life of the loan  Income-Based Repayment and Public Service Loan Forgiveness programs  Options to temporarily postpone payments: <ul style="list-style-type: none"><li>• Deferments for situations such as unemployment, economic hardship, and active military duty, or while enrolled at least half time (interest-free for Subsidized Stafford Loans only)</li><li>• Forbearances (interest accrues on all loans)</li><li>• No fees for deferments or forbearances</li></ul> Discharged in cases of death, severe disability, school closure			
Can Be Used For	Cost of attendance (tuition and fees, housing and food, books and supplies, transportation, miscellaneous personal expenses) minus other financial aid received				
Recipient or Borrower	Eligibility and amount depend on financial need, cost of attendance, and enrollment status (full time/part time)	Students enrolled at least half-time, with financial need	Students enrolled at least half time	Parents of dependent students enrolled at least half time	Students with financial need selected by the college
Source: U.S. Department of Education. Funding Education Beyond High School: The Guide to Federal Student Aid 2010-11. <a href="http://studentaid.ed.gov/students/publications/student_guide/2010-2011/english/main.htm">http://studentaid.ed.gov/students/publications/student_guide/2010-2011/english/main.htm</a> . Accessed March 18, 2011.					

<sup>8</sup> Calculations by the Project on Student Debt using data from U.S. Department of Education, NCES, NPSAS, 2007–08. This figure represents the percentage of all undergraduates who were citizens or permanent residents and enrolled at least half-time at some point during 2007–08. Other reasons for federal loan ineligibility include failing to make satisfactory academic progress in prior academic terms, defaulting on previously borrowed federal student loans, having been convicted of a drug offense while receiving federal aid, or (for male students) failing to register for the selective service.

**Private Student Loans:** In contrast to federal student loans, private student loans are one of the riskiest ways to pay for college. They are not financial aid any more than a credit card is when used to pay for textbooks or tuition. Private student loans are not required to provide the fixed rates, affordable repayment plans, loan forgiveness programs, deferment options, or cancellation rights that are built into federal student loans. Like credit cards, private student loans typically have variable interest rates that are highest for those who can least afford them. Lenders can raise interest rates, charge high fees, and declare borrowers in default for myriad reasons.<sup>9</sup> Yet, unlike credit card debt, private student loans are virtually impossible to discharge in bankruptcy.

Because of the high risks and costs associated with private loans, experts agree that students should always exhaust all available financial aid, including federal loans, before even considering a private student loan. Prospective students who still need private loans after exhausting all financial aid options may want to consider other more affordable colleges. While most private loans currently require a co-signer, usually a parent, parents of dependent students (including most students under age 24) can apply for parent PLUS loans. Like other federal loans, parent PLUS loans have fixed interest rates, while private student loans expose both the student and the co-signer to the risks of variable interest rates. Students whose parents do not qualify for a PLUS loan are eligible for additional federal student loans. Students and families can also look for ways to reduce expenses to increase grant aid.

Those students and families who decide to take a private loan after considering all other options need to be fully informed about the implications of this decision and how to compare the risks and costs of different private loans. One private loan comparison site lists recent starting interest rates ranging from 2.79% to 15.88% and origination fees from 0% to 6%.<sup>10</sup> Many private loan interest rates are tied to external benchmark rates, which have been unusually low in recent years compared to historic levels.<sup>11</sup> A borrower's rate and fees may depend on the lender, the borrower or co-signer's credit history, the college attended, or other factors. Those with weaker credit histories typically end up with the highest interest rates. Before the recent credit crisis, many lenders were making subprime private students loans that put borrowers at high risk of default. One estimate suggests that 360,000 to 540,000 borrowers will end up defaulting on more than \$5 billion in subprime private student loans.<sup>12</sup>

During repayment, private loans do not offer the same protections to borrowers as federal loans. For example, one student who graduated in 2008 found a good job, but was subsequently laid off. She tried to put her private loans into forbearance, only to find the fee to do so was more than her current monthly payment.<sup>13</sup> Another borrower who graduated with \$41,000 in federal loans and \$36,000 in private loans was told that private student loans were just like federal student loans. She first realized that was not the case when the interest rate on her private loans kept going up each month, and the differences became even starker when she had to take time off work because of pregnancy complications. Three years after graduation, the private loans had ballooned to \$53,000. She was able to stay in good standing on the federal loans and keep the payments manageable, but the private loans ended up in default even though she continued to pay what she could afford.<sup>14</sup>

### [The Basics of the Student Loan Borrowing Process](#)

With such stark differences between federal and private student loans and the financial imperative for students to exhaust federal aid first, it is important to have a basic understanding of how students apply for each type of loan, and when colleges are informed of these decisions.

<sup>9</sup> Loonin, Deanne. 2008. *Paying the Price: The High Cost of Private Student Loans and the Dangers for Student Borrowers*. National Consumer Law Center. pp. 29-30. [http://www.studentloanborrowerassistance.org/uploads/File/Report\\_PrivateLoans.pdf](http://www.studentloanborrowerassistance.org/uploads/File/Report_PrivateLoans.pdf). Accessed May 9, 2011.

<sup>10</sup> Student Lending Analytics. 2011. Private Loan Options. [http://studentlendinganalytics.com/alternative\\_loan\\_options.html](http://studentlendinganalytics.com/alternative_loan_options.html). Accessed February 24, 2011.

<sup>11</sup> See: Pepitone, Julianne. Key lending rate sinks to record low. *CNNMoney.com*, September 9, 2009. [http://money.cnn.com/2009/09/09/markets/bondcenter/bonds\\_credit/index.htm](http://money.cnn.com/2009/09/09/markets/bondcenter/bonds_credit/index.htm). Accessed March 18, 2011.

<sup>12</sup> Student Lending Analytics. 2010. *The \$5.4 Billion Private Student Loan Problem*. Student Lending Analytics Blog. [http://studentlendinganalytics.typepad.com/student\\_lending\\_analytics/2010/05/the-54-billion-problem.html](http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/05/the-54-billion-problem.html). Accessed March 18, 2011.

<sup>13</sup> Personal communications with Project on Student Debt staff, September 2009.

<sup>14</sup> U.S. House of Representatives. 2010. *Testimony of Valisha Cooks Before the House Committee on the Judiciary Subcommittee on Commercial and Administrative Law, Hearing on H.R. 5043, the "Private Student Loan Bankruptcy Fairness Act of 2010, April 22, 2010*. <http://judiciary.house.gov/hearings/pdf/Cooks100422.pdf>. Accessed April 19, 2011.



To apply for federal student loans, students — and sometimes their parents as well — must fill out the Free Application for Federal Student Aid (FAFSA), which is also the gateway to other types of federal aid as well as most state and college aid. Students have to fill out a FAFSA for each year they plan to enroll, and they can apply for aid before or during each academic year. For example, students can apply for federal loans for academic year 2010–11 any time between January 1, 2010 and June 30, 2011.<sup>15</sup> The U.S. Department of Education transmits the FAFSA data to the colleges that students list on their forms. Colleges then notify students about the aid they are eligible for, including types and amounts of federal student loans. Students then decide whether to accept some or all of the loans and in which amounts. The college then processes the loan(s) and applies the funds to the student's bill, making any remaining amount available to the student to cover other college-related expenses.

Experts agree that students should always exhaust all available financial aid, including federal loans, before even considering a private student loan.

In the case of private student loans, students generally start the process by filling out an application with a specific lender. The lender performs a credit check on the student and any co-signer. In many cases, the lender will seek “school certification,” asking the college to confirm that the student is enrolled; how much of his or her educational expenses have not been met through other means (the loan will then be capped at that amount); and any other information required by the lender to meet its own criteria for issuing the loan. After the loan is approved, the lender may send the funds to the college or directly to the student.

A school certification request is often the first indication colleges have that a student is seeking a private loan. This process not only gives the college the opportunity to confirm basic information about enrollment and costs, but also presents a crucial opportunity to counsel the student about all available financial aid and loan options. However, school certification is a voluntary industry practice applied to certain loans at the lender's discretion. It is not defined or enforced by any state or federal law. Most private student loans issued in the past few years have required both school certification and a creditworthy co-signer. However, before the recent credit crisis, many lenders aggressively marketed “uncertified” private loans directly to students.<sup>16</sup> Colleges may have no idea that a student has applied for or received an uncertified loan. One of the biggest lenders in the private student loan market, Wells Fargo, currently offers both certified and uncertified loans.<sup>17</sup>

The Higher Education Opportunity Act of 2008 (HEOA) added several new elements to the private loan process, including disclosure requirements and “self-certification.” For the first time, HEOA required lenders to disclose key loan terms and costs to borrowers before they sign a promissory note.<sup>18</sup> HEOA also created a new requirement that lenders obtain a self-certification form from the borrower before consummating a private student loan, which went into effect in February 2010.<sup>19</sup> (See Appendix A.) This new process was intended to confirm loan applicants' enrollment, cost of attendance, and the financial aid they have already received. However, in contrast to the school certification process described above, the information on the self-certification form does not have to come from the applicant's school or be verified in any way. In fact, the Federal Reserve Board issued final rules allowing lenders to provide pre-filled self-certification forms directly to borrowers.<sup>20</sup> This means there may be no

<sup>15</sup> U.S. Department of Education. 2010. 2010–2011 *Free Application for Federal Student Aid*. Federal Student Aid. <http://www.fafsa.ed.gov/fotw1011/pdf/PdfFafsa10-11.pdf>. Accessed March 18, 2011.

<sup>16</sup> See: Hacker, Holly. 2008. Private Loans for College Often Mask True Costs to Students. *The Dallas Morning News*, January 27.

<sup>17</sup> See Wells Fargo loan comparison chart at <https://www.wellsfargo.com/student/loans/>. As of April 19, 2011, their Collegiate Loan “required certification from school,” while their Education Connection loan did not.

<sup>18</sup> Board of Governors of the Federal Reserve System. 2009. Federal Reserve approves final amendments to Regulation Z that revise disclosure requirements for private education loans. Press release. <http://www.federalreserve.gov/newsevents/press/bcreg/20090730a.htm>. Accessed March 18, 2011.

<sup>19</sup> HEOA Section 1021 amended the Truth in Lending Act and the Higher Education Act to require lenders to collect a “self-certification” form developed by the U.S. Department of Education and to require schools to provide the form or information for the form upon request. See 15 U.S.C. 1638(e)(3) and 20 U.S.C. 1019d. The regulations implementing these provisions can be found at 12 CFR 226.48(e), 34 CFR 601.11(d) and 34 CFR 668.14(b)(29). The form itself is provided in Appendix A and is also available online at <http://www.ifap.ed.gov/dpccletters/attachments/GEN1001A-AppSelfCert.pdf>. Accessed December 6, 2010.

<sup>20</sup> The Project on Student Debt. 2009. *Summary of New Disclosures for Private Student Loans*. [http://projectonstudentdebt.org/files/pub/FRB\\_summary\\_aug09rules.pdf](http://projectonstudentdebt.org/files/pub/FRB_summary_aug09rules.pdf).

communication about self-certified loans either between lenders and schools or between students and their financial aid offices.

### Findings: Institutional Policies and Practices — from Promising to Problematic

College financial aid offices have a unique opportunity — and responsibility — to help students and families make informed and careful decisions about how, and how much, to borrow.<sup>21</sup> In recent years, news stories have featured the practices of a few specific colleges that have successfully used the school certification process as an opportunity to counsel students. Barnard College and Colorado State University in particular have been cited for their policies requiring counseling for some or all private loan applicants before the school would certify the loan.<sup>22</sup> In addition, changes in federal policy and in the private loan market have focused increased attention on the school certification process. (See “Policy and Market Context” on p. 17 for more about these changes.) However, most financial aid administrators we talked to had limited knowledge of other colleges’ policies and practices regarding private student loans, including those related to school certification.

For this report, we focused on whether and how colleges use the school certification process to inform prospective private loan borrowers about federal loans and other options that might be available. When colleges know that a student — or parent — has applied for a private student loan, they have a critical and time-sensitive opportunity to explain the important differences between federal and private student loans, the availability of any untapped federal, state or college aid, and how to get it. For students and families who choose to go ahead with a private loan after fully understanding the implications, colleges can provide information on how to compare the risks and costs of different loans. In the course of our research, we also identified a few additional practices (or in some cases the absence of practices) that do not directly respond to the school certification process, but are worth noting.

To learn about how colleges communicate with students and families regarding private loans, we interviewed financial aid administrators at 22 varied colleges around the country and analyzed examples of financial aid award letters from several additional colleges. The colleges we contacted include different sizes and types of schools, with a variety of costs, student demographics, and proportions of students reportedly applying for or using private student loans. Our research documented broad variations in practices during the school certification process in particular, which mirrored the variations in a wider range of practices regarding private loans found in prior research.<sup>23</sup>

In the remainder of this section, we present our findings about: 1) variations in timing, content, degree of customization, and mode of colleges’ communication with prospective private loan borrowers, as well as whether counseling is required or optional; 2) some of the misunderstandings that lead students and families — in the absence of good counseling — to apply for private student loans without fully considering other options; 3) institutional policies and practices during the school certification process; and 4) selected other institutional policies and practices regarding private student loans.

#### Variations in Timing, Content, Customization, and Mandatory Status

In examining colleges’ practices during the school certification process in particular, we found considerable variation in the timing, content, degree of customization, mode of communication with students, and whether a

<sup>21</sup> While most financial aid administrators take this responsibility seriously, this cannot be taken for granted. In 2007, news stories and investigations by New York’s attorney general exposed multiple examples of colleges and lenders working together in ways that conflicted with students’ interests. Some colleges and financial aid administrators had revenue-sharing agreements and other inappropriate financial relationships with private student loan companies. Subsequent federal legislation banned most of these practices, and they are not the focus of this report.

<sup>22</sup> See: Lieber, Ron. 2008. Counseling on Student Loans Now May Ease Pain Later. *New York Times*, September 5. <http://www.nytimes.com/2008/09/06/business/yourmoney/06money.html>. Accessed May 10, 2011; Jaschik, Scott. 2007. Bucking the Tide on Private Loans. *Inside Higher Ed*, July 16. <http://www.insidehighered.com/news/2007/07/16/barnard>. Accessed May 10, 2011; Luebchow, Lindsey. 2007. Colorado State Does Student Loans Right. *Higher Ed Watch*, August 23. [http://higheredwatch.newamerica.net/blogs/education\\_policy/2007/08/colorado\\_state](http://higheredwatch.newamerica.net/blogs/education_policy/2007/08/colorado_state). Accessed May 11, 2011; Singer, Michelle. 2009. Graduating Into Debt. *CBS News*, February 11. <http://www.cbsnews.com/stories/2007/09/26/eveningnews/main3301481.shtml>. Accessed May 11, 2011.

<sup>23</sup> Jensen, Carol. 2008. *Private Loan Counseling for Undergraduate Students: The Role of College Financial Aid Counselors*. Ph.D. dissertation, University of Nebraska. <http://www.eric.ed.gov/ERICWebPortal/contentdelivery/servlet/ERICServlet?accno=ED503771>. Accessed May 16, 2011; Wegmann, Catherine A., Alisa F. Cunningham, and Jamie P. Merisotis. 2003. *Private Loans and Choice in Financing Higher Education*. The Institute for Higher Education Policy. <http://www.ihep.org/assets/files/publications/m-r/PrivateLoans.pdf>. Accessed May 12, 2011.

response was required or not. All of these factors may affect how effective this communication is in helping students and families make informed decisions about private loans.

We found that some colleges communicate with students about private loans when the colleges first receive the lender's request for school certification, some only do so after certifying the loan, and some certify private loans without communicating with students during the school certification process at all. Some schools require a response from students before certifying a loan, while others do not. Communication may take place through phone or in-person conversations with the financial aid office, or through the Internet, or some combination. For example, at some colleges, such counseling takes place by phone during the summer and in person during the school year. A desire to process loan applications efficiently despite limited staff resources leads many financial aid offices to look for ways to automate the process. As a result, colleges sometimes utilize email, web-based financial aid portals, or interactive web-based counseling.<sup>24</sup> Messages sent by email or through online financial aid portals are sometimes customized to reflect whether a student has already filed a FAFSA, or how much remaining eligibility a student may have for federal grants and loans. Counseling by phone or in person may include more detailed discussion of the student's and family's financial situation, financial aid and loans already received, and options and alternatives to private loans.

College financial aid offices have a unique opportunity — and responsibility — to help students and families make informed and careful decisions about how, and how much, to borrow.

The content of the communications with students varies depending on the college and on the student's specific situation. All of the colleges we talked to emphasize the benefits of applying for federal student aid, including federal student loans. The counseling may also cover the risks of private student loans, the availability of parent PLUS loans as an alternative, and/or potential sources of additional grant/scholarship aid. If a student's or family's financial situation has changed, or the student faces extra educational expenses for a particular academic term, the financial aid administrator may also discuss potential adjustments to the student's eligibility for federal grants or subsidized loans. For example, if a student (or parent) lost a job after the time period reflected in the FAFSA, the financial aid administrator can adjust the student's eligibility for federal aid by documenting this changed situation.<sup>25</sup>

Providing information at “teachable moments” when a consumer is actually making a major financial decision may be more effective than providing general financial information provided ahead of time.<sup>26</sup> For private student loans in particular, focus group research has shown that consumers want clear disclosures about the loan terms at a time that would allow them to search for another loan, rather than after they have already accepted a loan.<sup>27</sup> Required counseling is more likely to affect students' decisions than optional counseling or tactics such as sending out messages without requiring a response. Amidst all of the other information and messages confronting students as they enroll in and pay for college, students may not read everything carefully nor understand the significance of information about private loans for their financial futures. However, students who have applied for a private loan generally have an interest in receiving the loan funds as quickly as possible. They are therefore likely to respond to messages about their loan application whether or not a response is required.

Counseling by phone or in-person is likely to be more effective than communicating exclusively via electronic means. Financial aid administrators generally believe that “one-on-one counseling” is the most effective.<sup>28</sup> They also note that one potential downside of providing counseling or consumer information about loans online is that

<sup>24</sup> Some colleges may seek third-party vendors to provide online private loan counseling. None of the colleges we talked to are currently using this approach, but at least one is considering it. One such vendor is Mapping Your Future, an organization sponsored by lenders and guaranty agencies. See: Mapping Your Future. Online Student Loan Counseling. <http://mappingyourfuture.org/oslc/counseling/index.cfm?act=Intro&OslcTypeID=48>. Accessed March 18, 2011.

<sup>25</sup> U.S. Department of Education. 2009. *Use of “Professional Judgment” by Financial Aid Administrators*. DCL ID: GEN-09-04. IFAP – Dear Colleague Letters. <http://ifap.ed.gov/dpccletters/GEN0904.html>. Accessed March 10, 2011.

<sup>26</sup> Melecky, Martin and Sue Rutledge. *Financial Consumer Protection and the Global Financial Crisis*. 2011. MPRA Paper No. 28201. Munich Personal RePEc Archive, January 18. <http://mpa.ub.uni-muenchen.de/28201/>. Accessed May 16, 2011.

<sup>27</sup> Consumers Union. 2007. *Helping Families Finance College: Improved Student Loan Disclosures and Counseling*. <http://www.consumersunion.org/pdf/CU-College.pdf>. Accessed March 10, 2011.

<sup>28</sup> Jensen, *op cit.*, 92-93.

it can be too easy to acknowledge receiving detailed information without actually reading or comprehending it.<sup>29</sup> However, as noted below, we found evidence that in some cases, online counseling and tools can have an impact on private loan usage.

The degree of customization is also important. Counseling that is customized to address the individual circumstances of each student is more likely to help the students and families make informed choices about private loans and alternative options. Research has shown that consumers prefer customized information over generic information, and that customized information can be more effective in influencing consumers' behavior.<sup>30</sup> As noted above, electronic messages can be customized to some extent. However, counseling by phone or in person is more likely to allow for detailed consideration of the student's situation and options.

### Widespread Misinformation

One prominent theme noted by the financial aid administrators we interviewed was the considerable extent to which students and families seeking private loans are misinformed about the availability of federal student loans and unaware of the risks of private loans. Here are some of the more common reasons financial aid administrators hear from students and families about why they apply for private student loans:

- Assume they earn too much to qualify for federal student loans (in fact, there is no income limit)
- Unaware that federal Parent PLUS loans are available, or can cover up to the full cost of attendance
- Believe the application process for federal loans is too long and complicated
- Think that private loans will be disbursed faster than federal loans
- Are attracted by what appear to be lower interest rates on private student loans
- Do not realize the implications of variable versus fixed interest rates
- Do not want to give their personal information to the government
- Want to stick with banks they already do business with
- Parents will not apply and/or qualify for federal Parent PLUS loans, but students can get other relatives or friends to co-sign a private loan

Each of these reasons offers a clear opening for financial aid offices to help students and their families make more informed borrowing decisions. For example, most parents of dependent undergraduates (which include most students under age 24) are likely eligible for federal Parent PLUS loans. However, if they are rejected, their child's cumulative federal Stafford Loan limit nearly doubles: from \$31,000 to \$57,500.<sup>31</sup> (See chart on p.5 for more about federal loan limits.) Prospective private loan borrowers may also not know about recent improvements to the federal aid application process, or about federal loan benefits such as Income-Based Repayment and Public Service Loan Forgiveness, which are not available for private loans. Additionally, those who choose to pursue private loans may not realize the benefits of looking beyond their own bank for what could be a better deal.

<sup>29</sup> Jensen, *op. cit.*, 81.

<sup>30</sup> Ha, Hong-Youl. 2002. The Effects of Consumer Risk Perception on Pre-purchase Information in Online Auctions: Brand, Word-of-Mouth, and Customized Information. *Journal of Computer-Mediated Communication*. Volume 8, Issue 1, October. <http://onlinelibrary.wiley.com/doi/10.1111/j.1083-6101.2002.tb00160.x/full>. Accessed May 17, 2011; U.S. Government Accountability Office. 2006. *CREDIT CARDS: Customized Minimum Payment Disclosures Would Provide More Information to Consumers, but Impact Could Vary*. GAO-06-434. <http://www.gao.gov/cgi-bin/getrpt?GAO-06-434>. Accessed May 17, 2011.

<sup>31</sup> "A dependent undergraduate student whose parent is unable to obtain a PLUS Loan may borrow additional Stafford Loan funds at the higher loan limits otherwise available only to independent undergraduates." From U.S. Department of Education. *Completing the FAFSA 2010–11*. Student Aid on the Web. <http://studentaid.ed.gov/students/attachments/siteresources/CompletingtheFAFSA10-11.pdf>. Accessed March 10, 2011. Annual and cumulative Stafford Loan limits are available at U.S. Department of Education. *Direct Stafford Loans*. Student Aid on the Web. <http://studentaid.ed.gov/PORTALWebApp/students/english/studentloans.jsp>. Accessed March 10, 2011.



### Institutional Practices During School Certification

In our discussion of practices during the school certification process, we categorize practices primarily according to the timing of the communication — before or after the loan is certified — and whether counseling is required or optional. These two factors are particularly important for the potential effectiveness of a practice and also present some of the clearest distinctions between the approaches taken by different colleges. In some cases, we also discuss particular aspects of the degree of customization, content, and mode of communication.

As described below, while not all colleges make the most of the counseling opportunity that the school certification process provides, some are taking positive steps toward helping students make informed decisions at this crucial point in the borrowing process.<sup>32</sup> For each of the practices listed as promising, there is some evidence from the colleges we talked to that it is helping to reduce the usage of private student loans. For example, several colleges found that about half of students contacted changed their plans—either deciding not to borrow a private loan or borrowing less than the original request. Further research is needed to determine the extent to which students change their minds based on the content of the counseling or are deterred by extra steps in the process, and whether they made other choices to borrow or to reduce expenses. Colleges need to do more to document the results of these initiatives so they can learn what works best to reduce private loan usage in their particular context, and to learn whether the students who reduce private loan usage end up using other forms of financing. Right now, few colleges track data on private loan borrowing beyond the overall volume of loans per year. (See the Recommendations section for specific suggestions for additional tracking.)

#### *Promising Practice: Require Counseling for All Private Loan Applicants*

We found several schools that take a particularly comprehensive approach to using school certification as an opportunity to help students and their families understand their options for paying for college. Before certifying any private student loan, these schools require the prospective borrower to participate in some kind of loan counseling. This approach can be time-intensive if there are many private loan applicants, but drafting messages and materials ahead of time and automating the process for contacting applicants can help. Contacting all private loan applicants ensures that the college does not certify a private loan without first seeing if there is way to help the student avoid taking on unnecessarily risky debt.

In 2006, **Barnard College**, a small nonprofit four-year school, started requiring one-on-one counseling before certifying private loans.<sup>33</sup> When a private loan request comes in, the college contacts the student with information about any remaining federal loan eligibility and about the requirement to have a counseling session in-person or by phone. During the counseling, the financial aid administrator recommends maximizing federal loan options and using private loans only as a last resort. The school saw private student loan volume drop by almost 75 percent in the first year of implementing this policy, from \$1.6 million in 2005–06 to \$0.4 million in 2006–07. In the most recent year, only 30 of the approximately 2,400 students at Barnard used private student loans, and all but one of those students had maximized their use of federal student loans first. **Mount Holyoke College**, another small nonprofit four-year school, adopted a similar policy in 2007 and found that about half of students counseled made some change to their plans regarding private loans. **Grinnell College** is another small nonprofit four-year school that requires counseling for all applicants before certifying private loans. We also found that this practice is not limited to small, private liberal arts colleges. Other colleges in our study that require counseling before certification for all known private loan applicants include a **medium-sized public two-year school**, as well as **San Diego State University**, a large public four-year school.

<sup>32</sup> As noted above, the practices described here apply primarily to domestic students who are eligible for federal student loans. Some schools exempt foreign students from private loan counseling requirements because they are not eligible for federal student loans.

<sup>33</sup> In this report, colleges with fall undergraduate enrollment of 5,000 or fewer students are described as small, those with more than 15,000 are described as large, and all others are described as medium-sized.

### San Diego State University

San Diego State is notable for trying several approaches to reduce private loan borrowing and for its willingness to do detailed tracking of outcomes for counseled students. The financial aid office developed its own online entrance counseling tool for private loans as part of its online financial aid portal for students and started using it in spring 2010. Students must go through the online counseling process *and* complete a Free Application for Federal Student Aid (FAFSA) before the school will certify a private loan.

After a student completes the online counseling, the college also takes a student's full eligibility for federal loans into account when calculating the amount to certify for a private loan. Private student loans can cover any portion of the cost of attendance not covered by other financial assistance, including grants or scholarships, work-study funds, and federal or private loans the student has already borrowed. For the purposes of school certification, San Diego State counts the full amount of a student's federal student loan eligibility as other financial assistance, whether or not the student has actually borrowed the maximum amount. This ensures that private loans the college is aware of will only be used to cover expenses that could not have been covered with federal student loans.

The financial aid office has an official, written policy documenting its procedures for private loan counseling. (See Appendix C.) This is in contrast to most colleges we talked to. (See "Areas for Improvement.")

Of the schools we talked to, San Diego State was able to produce the most detailed statistics tracking outcomes for students contacted for counseling. Preliminary results show that the online counseling requirement appears to have successfully held down private loan usage, with about half of those who initially applied for private loans choosing not to proceed with the application. Further research would help determine which aspects of San Diego State's required process are most effective, and could inform future improvements to the online counseling tool and other practices.

*Promising Practice: Require Counseling for Private Loan Applicants Who Have Not Exhausted Federal Loan Options*

Counseling all private loan applicants may not always be feasible, depending on available resources and the number of private loan applicants. Some colleges target their outreach and counseling to those who have not maximized their federal student loan options, either by borrowing less than their annual limit or by not filing a FAFSA at all.

At **Colorado State University**, a large public four-year school, it has been the policy for about 15 years to contact such students and have a phone conversation about the advantages of federal loans over private loans before certifying a private loan. In recent years, the college has found that about half the students contacted decide to exhaust their federal loan options first before turning to private loans. **Loyola University of New Orleans**, a small nonprofit four-year school, also has a policy of certifying private loans only after a conversation with the student applying for the loan, if the student has not filed a FAFSA. Loyola is notable for requiring private loan applicants who have not completed a FAFSA to sign and return a form that requires the student to either acknowledge the choice not to file a FAFSA or indicate that he or she will now file a FAFSA and wait for the results before



continuing to pursue the private loan.<sup>34</sup> (See Appendix B.) Among the schools we talked to, the **University of California-Berkeley**, a large public four-year school, and **Syracuse University**, a medium-sized nonprofit four-year school also require some form of counseling for students who have not maximized their use of federal loans before certifying a private loan. Syracuse University is most notable for helping students, while they are in school, pay off existing private student loans as a part of a broader effort to ensure that excessive loan debt does not deter these students from graduating. The college does this by replacing private loans with grants for students in danger of accumulating excessive debt in exchange for participation in financial literacy seminars.

#### *Potentially Promising Practice: Contact Private Loan Applicants Who Have Not Exhausted Federal Loan Options*

The most promising practices, listed above, involve requiring counseling of some sort before certifying private loans, either for all private loan applicants or at least for those who have not filed a FAFSA or used all their federal loan eligibility. In contrast, this next practice involves contacting the private loan applicants, but only counseling students if they respond within a certain period of time. Otherwise, if the student does not respond, the college goes ahead and certifies the loan. This practice is potentially promising because it can give students an important chance to consider other options. However, its effectiveness depends on whether the financial aid office communicates with students in ways that are likely to get their attention, whether the initial messages are customized to address the student's particular situation, how long students have to respond before the school certifies the loan, and what kind of help is available for students who do respond.

**Stanford University**, a medium-sized nonprofit four-year school, makes sure all students who are applying for private loans without exhausting federal options have been contacted by the financial aid office at some point before the school certifies the loan. The time between when the school contacts the student and when it certifies the loan averages about two to three days during the academic year, but varies depending on the time of year and the response of the student.

#### *Problematic Practice: Approving All Certification Requests*

Some colleges approve all certification requests that meet the basic requirements without necessarily contacting the student or checking if the student has exhausted available federal student loan options. In some cases, the college sends messages or engages in counseling at some point *after* certifying the loans, while in other cases there is no attempt to contact the student during the certification process. Either way, this practice misses the crucial opportunity to reach students *before* they commit to a private loan. Students who receive counseling after a loan has been disbursed might still be able to repay the loan, but they may be liable for any origination fee or accrued interest, depending on the terms set by the lender.<sup>35</sup> Any effort put into contacting and/or counseling students after the fact would be better spent earlier in the process, when it could inform a student's decisions about whether to borrow a private loan at all, and if so, for how much, from where, and on what terms.

One **large for-profit four-year school** generally responds to requests for private loan certification by approving the request without contacting the student. Some entering students may have received counseling before applying for the loans if they participated in a meeting with a financial aid advisor as a part of the usual enrollment process. Such a meeting is recommended but not required. For continuing students or entering students who do not participate in the financial aid meeting, this means the school never took the opportunity to counsel the student before certifying the loan.

Another **large for-profit four-year school** responds to requests for certification by certifying the loan, then notifying the student that a loan in a specific amount from a specific lender has been certified, and simply asking the

<sup>34</sup> This school makes some exceptions at the end of academic terms when the loan application would expire if the loan is not processed before the end of the term.

<sup>35</sup> The Higher Education Opportunity Act of 2008 (HEOA), Section 1011 amended the Truth in Lending Act (TILA) to add 15 U.S.C. 1650(e), prohibiting prepayment penalties for private student loans. HEOA Section 1021 amended TILA to add 15 U.S.C. 1638(e)(7) and (8), creating a three business day cancellation period starting when the borrower receives the final disclosures from the lender, during which the lender may not disburse the loan and the borrower may cancel without any penalty. See also 12 CFR 226.48(d) for regulations implementing the cancellation period.

student to respond if there are any errors. If students contact them with questions, they will counsel the students about federal options.

A **medium-sized public four-year school** approves all certification requests, and then sends out email messages to those students who have not exhausted federal loan options to remind them about remaining federal loan eligibility. For students who have not filed a FAFSA, the email explains the benefits of doing so.

Another **medium-sized public four-year school** also certifies private loans when requests come in. However, the college will only certify loans that are payable to the school as well as the student, and has worked with local lenders to ensure that some uncertified private loans are also payable in this manner. When the student comes in to get the school's endorsement on the loan check, the college takes the opportunity to counsel students about their borrowing options.

One **small nonprofit four-year school** certifies all private loans without contacting students at all.

### Some Colleges Do Not Certify Any Private Loans

Among the schools where we conducted interviews, two **medium-sized public colleges that primarily grant associates degrees** reported not certifying private student loans at all.<sup>36</sup> Both schools report getting few requests for certification in a typical year, and both respond to such requests by contacting the student to explain the policy and the student's other options. These colleges have relatively low costs and most of their students are eligible for federal student loans. The counseling is personalized, so the financial aid office can help each student find alternatives to private loans that are appropriate for that student's particular situation. However, a policy of never certifying private loans may not be flexible enough to address all situations, and could result in students turning to more costly uncertified private loans or other types of borrowing. In contrast, a policy of counseling all students who apply for certified private loans allows students to consider all options and make an informed decision.

### Other Institutional Practices

While the school certification process presents a unique opportunity for colleges to provide advice to students and families just as they are considering whether and how to borrow private student loans, some colleges engage in promising practices at other times.

#### *Other Promising Practices*

Providing counseling in response to requests for school certification of private loans represents the core practice of promising institutional policies for reducing private loan usage. However, we also identified some additional promising practices that occur at other points in the process and we suggested others that could enhance these efforts:

**Contact Students Who Previously Borrowed Private Loans:** Since students who borrowed private loans in a previous year are among those likely to borrow in the current year, one **medium-sized public four-year school** sends emails to students who took out private student loans during the previous academic year but have not yet filed the FAFSA for the current year.

<sup>36</sup> One of the schools grants a few Bachelor's degrees, and is therefore sometimes classified as a public four-year school.

**Monitor Unpaid Bills:** Several colleges reported a spike in private loan activity around the date when tuition was due or when unpaid bills resulted in registration holds. This suggests that colleges might also target counseling to students with unpaid bills that are coming due and who have no FAFSA on file or have untapped federal loan eligibility.

**Ask Lenders to Make Checks Co-Payable to the College and the Student:** As noted above, not all private student loans require school certification. In some cases, the student may apply directly to a lender and receive a check without the college ever being notified of the transaction. Some colleges have worked with local lenders so that loan checks will be made co-payable to the school as well as to the student, and will thus require both signatures. This requires some contact between the school and the student and creates the opportunity for both counseling and cancellation. Although such contact comes after the loan has been made, for uncertified loans, it may be the only chance the college has to track the loan and counsel the student regarding alternative options.

**Coordinate with the Bursar's Office to Track Uncertified Loans:** At some colleges, the financial aid office works with the bursar's or cashier's office to identify incoming checks from private lenders. This may be the first time the school learns of an uncertified private loan. Counseling a student to consider other options may not be effective at this point, depending on the timing and the lender's policies.<sup>37</sup> However, the college can counsel the student about other options for future academic terms. In addition, these practices help colleges track uncertified private student loans, giving them a more comprehensive picture of private loan borrowing by their students. Such data can in turn inform financial aid packaging and student loan counseling policies.

**Minimize Processing Time for Federal Loan Applications:** By using all available tools to speed the disbursement process for federal loans, some schools report that students can see funds credited to their accounts less than a week after filing a FAFSA. For students and parents who turn to private loans because they think federal loans will take too long, schools that work as efficiently as possible with the U.S. Department of Education and tell students and families about the quick turnaround time can help dispel that concern. To help speed up the application process for federal aid, schools can encourage students and families to electronically transfer their own IRS data into the FAFSA. This fast and simple new process was piloted in 2010 and is available through the online 2011–12 FAFSA.<sup>38</sup>

### *Other Problematic Practices*

**Packaging Private Loans:** We found several examples of colleges that include or “package” private student loans in the initial financial aid award letters they send to students. Including private loans as part of financial aid offers conveys the college's tacit approval of this type of financing, and can give the false impression that private loans are a form of financial aid. Colleges sometimes use private student loans in a student's financial aid package to bring the apparent “out of pocket” cost down to a figure at or near zero. Students and families may not realize the important differences between types of loans, or that certain words or acronyms signal whether or not a loan is federal. Packaging private loans may keep students and families from considering other options for covering college costs, checking out other colleges that may be more affordable, or making meaningful comparisons to other aid offers.

A financial aid administrator from one campus of a **large for-profit four-year school** indicated that the college works with a single private lender to package private loans when federal grants and loans do not cover at least the cost of tuition and fees plus books and supplies. It is questionable whether this practice complies with current law prohibiting the steering of students to particular lenders.<sup>39</sup>

<sup>37</sup> One large public four-year college indicated that at least one major lender is often flexible at this point in the process about allowing students to convert an uncertified loan into a certified loan (with better loan terms) or cancel the uncertified loan.

<sup>38</sup> See: The Institute for College Access & Success. *Simplifying the FAFSA*. [http://ticas.org/program\\_view.php?id=7](http://ticas.org/program_view.php?id=7); “Announcements” section of U.S. Department of Education. 2011. *FAFSA on the Web*. Federal Student Aid. <http://www.fafsa.ed.gov>. Accessed May 20, 2011; U.S. Department of Education. 2011. *How the student IRS data retrieval tool works*. Federal Student Aid. <http://www.fafsa.ed.gov/fotw1112/help/irshlp8.htm>. Accessed May 20, 2011; U.S. Department of Education. 2011. *How the parent IRS data retrieval tool works*. Federal Student Aid. <http://www.fafsa.ed.gov/fotw1112/help/irshlp8a.htm>. Accessed May 20, 2011.

<sup>39</sup> See the regulations implementing the HEOA provisions on “Preferred Lender Arrangements,” at 34 CFR 601.

A **medium-sized for-profit four-year school** reported sometimes packaging private loans for students with costs that exceed available federal and state aid. This practice is not limited to for-profit colleges, however. For example, a financial aid award letter for a student entering a **small nonprofit four-year school** included \$17,730 in private loans in addition to the \$3,500 maximum in federal Stafford Loans. Another **small nonprofit four-year school** packaged a \$4,400 private loan along with \$3,500 in federal Stafford Loans for the same year.<sup>40</sup>

### *Areas for Improvement*

There are several areas where the practices of many, if not most, of the colleges we talked to were problematic. Improvement in these areas will help ensure that all colleges will be able to build on the promising practices highlighted in this report.

**Tracking Outcomes of Counseling:** Few of the colleges we talked to track the outcomes of counseling or the impact of other practices in reducing student usage of private loans. Many colleges have data on the overall volume of private loans, and those that do not should begin tracking the number of recipients and total loan dollars at least annually. However, these data do not indicate whether these private loan borrowers exhausted available federal student loans before turning to private loans. In addition, few colleges have any statistics on the number of requests for school certification of a private loan, the number of students counseled as part of the school certification process, or whether those counseled cancelled their private loan application or reduced the amount borrowed through private loans. Having this information is critical for colleges to learn how best to use limited staff resources to have the greatest impact in reducing private loan usage.

**Sharing Promising Practices and Results:** While many colleges engage in promising and innovative practices to try to reduce private student loan usage, few share what they are doing with the field as a whole. Therefore, most of the financial aid administrators interviewed were unaware of the details or scope of others' practices in this area.

**Formalizing Policies and Practices:** Few of the colleges we talked to have a formal, written policy that ensures that the practices highlighted are applied consistently in all cases and will continue in the future, regardless of staff changes. Formalizing policies and practices can include adopting written policies and procedures and incorporating promising practices into the forms, data systems, and software used to communicate with students and track their financial aid information. At the colleges we talked to, the degree of formalization varied considerably. As noted above, San Diego State University has an official, written policy documenting its procedures for private loan counseling. (See Appendix C.) Some schools indicated that their practices for handling private loan certification requests were part of a consciously adopted policy. Others reported not having a "policy" on private loans, but then described promising practices that were part of their standard procedures, suggesting that these practices were at least somewhat institutionalized. In some cases, the development and implementation of specific policies and practices appeared to be tied to the interest and priorities of specific individuals in the financial aid office.

The degree of formalization has an impact on whether all students will receive the same crucial counseling about alternatives to private loans, regardless of who is on duty or who is on the staff at any given time. Taking steps to formalize and institutionalize promising policies and practices regarding private loans within the financial aid office and in other offices helps to emphasize the importance of this issue and helps to ensure that the "federal aid first" philosophy is carried out by all staff who have contact with students related to financial matters.

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<sup>40</sup> These award letters were for academic year 2007–08.

## Policy and Market Context

Colleges develop and implement their policies on private student loans within a broader context of government policies and the trends in the private loan market. Both can affect the opportunities and incentives for colleges to counsel students about the risks of private loans and their eligibility for federal loans and other sources of aid. Policies set by legislators, regulators, and individual lenders can also affect relative costs, benefits, risks, and consumer protections for available loan products. Trends in the overall private loan market can affect how many students on a given campus, and which ones, will request and/or be approved for private loans. Colleges may have to adapt their strategies for counseling students about alternatives to private loans as the policy and market contexts evolve.

“Many students that started out with alternative loans declined them when they found out they [could get] lower-interest federal loans.”

- Respondent to survey of financial aid officers

### Federal Policy Context

Federal policies determine the terms and borrowing limits for federal student loans as well as eligibility criteria and amounts for Pell Grants and other sources of federal aid.<sup>41</sup> Changes in the award levels for federal grants and the interest rates and other terms for federal loans may affect private student loan usage over time.

Since the current federal self-certification requirement does not ensure any involvement by the school, it does not necessarily lead to the contact between consumers and the financial aid office that could help borrowers make smarter, safer choices. Nearly all of the promising college-level practices we found depend on school certification to make the college aware that a student has applied for a private loan. It is this awareness that enables the school to contact and counsel the student about his or her options before the debt is incurred. However, as noted above, school certification is a voluntary lender practice not currently required by law. (See “The Basics of the Student Loan Borrowing Process” above for more on the self-certification requirement.)

Sallie Mae, the largest lender of private student loans, has reported that school certification, whereby the school directly verifies the loan amount the student is eligible to receive, reduces the amount borrowed for nearly 30 percent of the loans that go through this process.<sup>42</sup> By contrast, for uncertified loans, the school does not have the opportunity to verify the loan amount and make such reductions. Research has also found that school-certified loans have significantly lower default rates than loans that bypass school certification.<sup>43</sup>

In a recent survey of financial aid administrators, the most frequent response to a question about how to improve self-certification was “substitute school certification for the self-certification process.” Some respondents provided additional comments indicating that they provide, or at least recognize the importance of providing, some kind of counseling to prospective private loan borrowers when they know about them. For example:

- “The form is unnecessary and redundant. With school-certification, we let the students know if they have other loan options, regardless of a school certification form.”
- “All private student loans through lenders should be required to complete school certification which would prevent the student from borrowing in excess and allow the school the opportunity to counsel the student.”

<sup>41</sup> In recent years, Congress reduced interest rates on some federal student loans, increased federal Stafford loan limits, increased the Pell Grant, gave parents the option of deferring payments on PLUS loans while their children are in school, and created the Income-Based Repayment program to help keep federal loan payments affordable based on the borrower’s income and family size. See: *College Cost Reduction and Access Act*. Pub. L. No. 110-84, 121 Stat. 784 (2007). <http://www.gpo.gov/fdsys/pkg/PLAW-110publ84/pdf/PLAW-110publ84.pdf>. Accessed May 12, 2011; *Ensuring Continued Access to Student Loans Act of 2008*, Pub. L. No. 110-227, 122 Stat. 740 (2008). <http://www.gpo.gov/fdsys/pkg/PLAW-110publ227/pdf/PLAW-110publ227.pdf>. Accessed May 12, 2011; *Health Care and Education Reconciliation Act of 2010*, *op. cit.*

<sup>42</sup> See Sallie Mae’s comments to the Board of Governors of the Federal Reserve System: [http://www.federalreserve.gov/SECRS/2009/May/20090529/R-1353/R-1353\\_052609\\_21079\\_591049709690\\_1.pdf](http://www.federalreserve.gov/SECRS/2009/May/20090529/R-1353/R-1353_052609_21079_591049709690_1.pdf). Accessed November 12, 2010.

<sup>43</sup> See: Moody’s Investors Service. 2009. “Direct-To-Consumer” Student Loans: Higher Risk; U.S. House. 2009. *Testimony of Congressman Danny K. Davis before Committee on the Judiciary Subcommittee on Commercial and Administrative Law Hearing on An Undue Hardship? Discharging Educational Debt in Bankruptcy* September 23, 2009. <http://www.judiciary.house.gov/hearings/pdf/Davis090923.pdf>. Accessed March 18, 2011.



- “Many students that started out with alternative loans declined them when they found out they [could get] lower-interest federal loans.”<sup>44</sup>

Organizations representing lenders, financial aid administrators, colleges, and students all support requiring lenders to obtain school certification of private loans — often referred to as “mandatory school certification” — and see it as a critical tool for ensuring that students use safer federal loans first.<sup>45</sup> The House of Representatives passed a version of the financial reform legislation in December 2009, requiring school certification for all private student loans and requiring that students be informed of any remaining federal loan eligibility.<sup>46</sup> The final version of the bill, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, however, did not include these requirements.<sup>47</sup>

The Dodd-Frank Act gives the new Consumer Financial Protection Bureau (CFPB) rulemaking authority over all types of private student loans, including those made by colleges.<sup>48</sup> The agency has authority over all private student lenders, including both banks and non-banks, such as for-profit career colleges that offer their own student loans. The CFPB will also have full supervision and enforcement authority over private student lending by larger banks and all non-banks. Consumer advocates have called on the CFPB to require mandatory school certification along with other important consumer protections for private loan borrowers.<sup>49</sup>

The Dodd-Frank law establishes a Private Education Loan Ombudsman at the CFPB, which will give students and their families somewhere to turn for help with private student loans. The CFPB also has the authority to require more comprehensive federal data collection on private student loans, which would greatly enhance the ability of analysts, policymakers, and colleges to understand private loan borrowing patterns. This in turn could inform efforts to reduce students’ reliance on this risky form of financing. Currently, there are very limited data about private student loans available from federal or private sources. In particular, there is no source of college-level data on the annual usage of private loans for all undergraduates.<sup>50</sup> Limited data from a non-federal source suggest that there is considerable variation in the usage of private loans from college to college, even among colleges with similar overall borrowing levels.<sup>51</sup>

### Market Context

While the overall volume of private student loans dropped during the recent credit crunch, students are still using billions of dollars in private loans each year and there are signs that private loan volume is again increasing. Private loan volume for undergraduates increased at a double-digit rate each year for over a decade, reaching a peak

<sup>44</sup> Student Lending Analytics. 2010. *Improving the Self-Certification Process For Private Student Loans*. Student Lending Analytics Blog. [http://studentlendinganalytics.typepad.com/student\\_lending\\_analytics/2010/10/improving-the-private-student-loan-self-certification-process.html](http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/10/improving-the-private-student-loan-self-certification-process.html). Accessed December 6, 2010.

<sup>45</sup> See December 10, 2009 letter signed by 25 organizations, including TICAS, in support of mandatory certification ([http://projectonstudentdebt.org/pub\\_view.php?id=534](http://projectonstudentdebt.org/pub_view.php?id=534)), and May 7, 2010 letter signed by lenders and others urging inclusion of mandatory school certification in the Senate financial reform bill (<http://insidehighered.com/content/download/347825/4312983/version/1/file/NASFAASchoolCert.pdf>, accessed March 18, 2010).

<sup>46</sup> *Wall Street Reform and Consumer Protection Act of 2009*, HR 4173, Section 4818, as passed by the House of Representatives on December 11, 2009. <http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173eh/pdf/BILLS-111hr4173eh.pdf>. Accessed March 18, 2011.

<sup>47</sup> See: The Project on Student Debt. 2010. *Big Wins for Students in Final Financial Reform Bill*. [http://projectonstudentdebt.org/files/pub/TICAS\\_Conference\\_STA.pdf](http://projectonstudentdebt.org/files/pub/TICAS_Conference_STA.pdf). and National Association for College Admissions Counseling (NACAC). 2010. *NACAC Advocates for Private Student Loan Legislation*. <http://www.nacacnet.org/LegislativeAction/LegislativeNews/Pages/NACACAdvPrivLoanLeg.aspx>. Accessed March 18, 2011; Student Loan Borrower Assistance Project. 2010. *Private Student Loans and the Consumer Financial Protection Bureau*. <http://www.studentloanborrowerassistance.org/2010/11/>. Accessed March 18, 2011.

<sup>48</sup> *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Pub. L. No. 111-203, 124 Stat. 1376 (2010). <http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf>. Accessed March 18, 2011.

<sup>49</sup> See: Student Loan Borrower Assistance Project, *op cit*.

<sup>50</sup> One federal survey conducted every four years provides comprehensive information about private loan usage by student and college characteristics, but only at the national level. Another federal survey provides data about usage of non-federal loans, but only for full-time freshmen, not all undergraduates. A non-federal survey provides annual private loan volume at the national level. See: U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), <http://nces.ed.gov/surveys/npsas/>. Accessed December 3, 2010; U.S. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS), <http://nces.ed.gov/ipeds/>. Accessed December 3, 2010; The College Board. *Trends in Student Aid 2010*. [http://trends.collegeboard.org/student\\_aid/](http://trends.collegeboard.org/student_aid/). Accessed December 3, 2010.

<sup>51</sup> The Project on Student Debt. 2010. *Student Debt and the Class of 2009*, 7. <http://projectonstudentdebt.org/files/pub/classof2009.pdf>. Accessed May 10, 2011.



of \$17.1 billion in 2007–08.<sup>52</sup> The recent credit crisis made it more difficult for private lenders to raise capital and limit their exposure to risk through securitization, as has also been the case for home mortgage lenders. This led lenders to tighten underwriting standards and to require co-signers for most private student loans.<sup>53</sup> Concurrently, increases in federal Pell Grants and in the loan limits for federal Stafford Loans may also have helped to limit demand for private loans. Overall private loan volume for undergraduates dropped to \$8.5 billion in 2008–09 and to \$6.3 billion in 2009–10.<sup>54</sup>

During the back-to-school peak lending season at the start of 2010–11, there were already signs that the private loan market was starting to grow again, with one analyst estimating that annual volume was above 2009–10 levels.<sup>55</sup> The results reported by the largest lenders in recent months showed increased growth and competition in the market. Among the largest lenders in this market, Sallie Mae's private loan volume grew rapidly in the first quarter of 2011, Wells Fargo reported growth in private loans since at least the second quarter of 2010, and Discover continued to report steady growth in its existing private loan portfolio.<sup>56</sup> Lenders and analysts are predicting increasing demand for private student loans as the cost of college continues to rise faster than available family and federal financial aid resources.<sup>57</sup>

Even with overall volume down from peak levels, competition among the largest lenders has increased and new lenders have entered the market. Wells Fargo has reported an increase in market share and Discover greatly expanded its involvement in this market by acquiring Citibank's private student loan business.<sup>58</sup> Seeking to increase volume, Sallie Mae recently lowered its interest rates, and Wells Fargo introduced fixed-rate private loans.<sup>59</sup> In the last few years, credit unions have also been entering the market in growing numbers, and recent announcements suggest they are expanding their private student loan products.<sup>60</sup>

<sup>52</sup> Calculations by the Project on Student Debt using data from The College Board. *Trends in Student Aid 2010*. Table 2a. [http://trends.collegeboard.org/downloads/2010\\_Trends\\_Student\\_Aid\\_All\\_Figures\\_Tables.xls](http://trends.collegeboard.org/downloads/2010_Trends_Student_Aid_All_Figures_Tables.xls). Accessed April 19, 2011. Overall private loan volume, including graduate/professional students, was \$21.1 billion in 2007–08. Figures are in current dollars, not adjusted for inflation. This figure is based on the definition of private student loans used in this report, which is non-federal student loans made by banks and lenders. Some states and colleges also offer non-federal student loans, which are not included.

<sup>53</sup> The Project on Student Debt. 2010. *Bankruptcy and The Private Student Loan Market*. [http://projectonstudentdebt.org/files/pub/Bankruptcy\\_the\\_Private\\_Student\\_Loan\\_Market\\_April\\_2010.pdf](http://projectonstudentdebt.org/files/pub/Bankruptcy_the_Private_Student_Loan_Market_April_2010.pdf).

<sup>54</sup> *Ibid.* to The College Board. *Trends in Student Aid 2010*. Table 2a. [http://trends.collegeboard.org/downloads/2010\\_Trends\\_Student\\_Aid\\_All\\_Figures\\_Tables.xls](http://trends.collegeboard.org/downloads/2010_Trends_Student_Aid_All_Figures_Tables.xls). Accessed April 19, 2011.

<sup>55</sup> See: Student Lending Analytics. 2010. *3Q Private Student Loan Trends: Wells Fargo Originations Surge 29%; Sallie Mae Sees 6% Drop*. Student Lending Analytics Blog. [http://studentlendinganalytics.typepad.com/student\\_lending\\_analytics/2010/10/3q-private-student-loan-trends-wells-fargo-originations-surge-29-sallie-mae-sees-6-drop.html](http://studentlendinganalytics.typepad.com/student_lending_analytics/2010/10/3q-private-student-loan-trends-wells-fargo-originations-surge-29-sallie-mae-sees-6-drop.html). Accessed March 18, 2011; Andriotis, AnnaMaria. 2010. Private Student Loans Are Making a Comeback. *SmartMoney*, August 25. <http://www.smartmoney.com/personal-finance/college-planning/private-student-loans-are-making-a-comeback/>. Accessed March 18, 2011. Note that the figures for private loan volume in these articles include loans to undergraduates and graduate/professional students.

<sup>56</sup> Wells Fargo & Company. Quarterly earnings supplements for 2010 and 2011. [https://www.wellsfargo.com/invest\\_relations/earnings](https://www.wellsfargo.com/invest_relations/earnings). Accessed June 26, 2011. Also analysis of 10-Q and 10-K filings for 2010 and 2011 for SLM Corp., Wells Fargo & Company, and Discover Financial Services. U.S. Securities and Exchange Commission. <http://www.sec.gov/edgar/searchedgar/companysearch.html>. Accessed June 26, 2011.

<sup>57</sup> See: SLM Corporation. 2011. Form 10-K. Filed February 28, 2011. U.S. Securities and Exchange Commission. <http://www.sec.gov/Archives/edgar/data/1032033/000095012311019779/w80795e10vk.htm>. Accessed March 18, 2011. See also: Campbell, Todd. 2011. SLM Corp.: Is It Time to Enter a Growth Business With 'Sallie Mae' Shares? *Seeking Alpha*, April 12. <http://seekingalpha.com/article/263189-slm-corp-is-it-time-to-enter-a-growth-business-with-sallie-mae-shares>. Accessed May 2, 2011.

<sup>58</sup> Wells Fargo & Company. 2011. *4Q10 Quarterly Supplement*. [https://www.wellsfargo.com/downloads/pdf/press/4Q10\\_Quarterly\\_Supplement.pdf](https://www.wellsfargo.com/downloads/pdf/press/4Q10_Quarterly_Supplement.pdf). Accessed June 26, 2011; Discover Financial Services. 2011. *Discover Completes Acquisition of the Student Loan Corporation*. Press release. <http://investorrelations.discoverfinancial.com/phoenix.zhtml?c=204177&p=irol-pressArticle&ID=1511872>. Accessed June 26, 2011.

<sup>59</sup> Korn, Meissa. 2011. Sallie Mae Cuts Private-Loan Rates To Maintain Volume Growth. *Wall Street Journal*, May 16. <http://online.wsj.com/article/BT-CO-20110516-708613.html>. Accessed June 8, 2011; Choi, Candice. 2011. Wells Fargo Rolls out Fixed-Rate Student Loans. *ABC News*, June 8. <http://abc-news.go.com/Business/wireStory?id=13793881>. Accessed June 8, 2011.

<sup>60</sup> See: Andriotis, AnnaMaria. 2010b. Should You Tap Credit Unions for College Loans? *SmartMoney*, January 13. <http://www.smartmoney.com/personal-finance/college-planning/Should-You-Tap-Credit-Unions-for-College-Loans/>. Accessed March 18, 2011; Credit Union Student Choice. 2010. *Credit Union Student Choice to Expand Consolidation and Graduate Loan Programs in 2011*. <http://www.studentchoice.org/Images/CUStudentChoice%20ExpandConsolidationGradProgram.pdf>. Accessed March 18, 2011.

### Recommendations for College Policies and Practices

We recommend that colleges review their policies and practices that might affect students' borrowing decisions, and take proactive steps to reduce students' use of private student loans whenever possible. In particular, we urge colleges to adopt promising practices such as those identified in this report, including:

**Require counseling before certifying private loans:** Colleges should not automatically certify private student loans. Instead, when they learn that a student or parent has applied for a private loan, they should first contact the prospective borrower by email, phone, or in person and share important information about untapped aid eligibility, the importance of filing the FAFSA if the applicant has not done so already, and the key differences between private and federal loans.

Ideally, all students who have apply for a private loan would receive counseling before the loan is approved. Even students who have reached their federal student loan limits should be made aware of Parent PLUS loans, if applicable, as well as any other resources they might be able to tap before turning to private loans. Financial aid administrators may also be able to determine if changes in financial circumstances or educational expenses warrant adjustments to the student's eligibility for aid.

At a minimum, colleges should require counseling for private loan applicants who appear to be eligible for federal aid but have not filed a FAFSA and for those who filed a FAFSA but have not exhausted their federal student loan limits. This counseling should include providing information for those students and families who decide to take a private loan after considering all other options, so they are fully informed about the implications of this decision and how to compare the risks and costs of different private loans.

**Formalize policies and practices:** Colleges should formalize and document their efforts to help private loan applicants make informed decisions. Written financial aid office policies and procedures, and the training of new personnel, should directly address both why and how to reach out to students and families, and any counseling or other processes required before the school certifies a private loan. This will ensure that such policies and practices are institutionalized and do not depend solely on the priorities or practices of individual staff members.

**Coordinate between offices:** The financial aid office can work with the bursar's or cashier's office to identify incoming loan checks from uncertified private student loans. Once aware of the loan, the financial aid office can then counsel students about their immediate options, which may under some circumstances include cancelling the loan, and encourage students to consider safer alternatives for upcoming academic terms. This coordination also allows the financial aid office to track uncertified loans and provides a more comprehensive picture of student loan borrowing that can lead to improved financial aid packaging and loan counseling.

**Do not include private student loans in financial aid offers:** Private student loans should be a last resort after other options are exhausted. As such, colleges may choose to mention private loans as a financing option. However, packaging risky private loans as part of an initial financial aid offer gives the college's tacit approval for this form of financing and may add to students' confusion about the differences between federal and private student loans.

**Use all available tools to speed up the federal loan process:** Some students and families tell financial aid administrators they apply for private student loans because they perceive the process for applying for and receiving federal student loans as lengthy and complicated. Colleges can speed up this process for students by assisting students in completing the FAFSA, making them aware of the option to import IRS data into the FAFSA, and using all tools available from the U.S. Department of Education to speed the federal loan disbursement process. It is also important to communicate on the financial aid office website and in other materials how fast the federal student loan process can be.

**Track outcomes:** Many colleges are already engaging in promising practices for reducing students' usage of risky private student loans. However, few have systematically collected information about the impact of these practices

on students' borrowing decisions. Such data will help colleges design, implement, and improve effective policies, target their resources, and inform the larger financial aid field about what does and does not work. To provide the most useful and relevant information, the following data points should be tracked separately for undergraduates and graduate/professional students.

For colleges that counsel some or all private student loan applicants before they complete the loan process, annual tracking data should include:

- Total number of student loan certification requests
- Total number of students who completed counseling
- Total number of students who cancelled their private loan applications or lowered the amount applied for after the counseling

To better understand their students' borrowing patterns, all colleges should also collect these annual figures:

- Total number of private loans received
- Total number of private loan recipients
- Total dollar amount of private loans received

We also encourage colleges to consider compiling these annual statistics from their financial aid data systems:

- Total number of private loan borrowers who were eligible for federal loans but did not file a FAFSA
- Total number of private loan borrowers who filed a FAFSA but did not use their maximum in federal student loan eligibility for that year

**Share promising practices:** By sharing information about promising practices and actual outcomes, colleges can learn from each other about which practices are effective at reducing students' usage of risky private loans.

### Appendices

These appendices include samples of actual forms and documents used in conjunction with some of the policies and practices described in this report. These materials are provided solely as examples of college practices and communications, and their inclusion in these appendices does not in any way constitute an endorsement of the content or its sources.

#### **Appendix A: U.S. Department of Education “Self-Certification” Form**

Lenders making private student loans are required to collect this form from all applicants. In contrast to school certification (which is voluntary), the information on this form does not have to come from the applicant’s school, and there may not be communication between the lender and the school or the student and the school.

#### **Appendix B: Alternative Loan Processing Certification Form, Loyola University of New Orleans**

Loyola University of New Orleans requires students applying for private student loans who have not completed a FAFSA to sign and return this form, either acknowledging the choice not to file a FAFSA or indicating that they will now file a FAFSA and wait for the results before continuing to pursue a private loan.

#### **Appendix C: San Diego State University Alternative Loan Procedures**

The degree of formalization of policies and practices regarding private student loans varies considerably. San Diego State University is an example of a school with written policies and procedures, as illustrated by this document.

#### **Appendix D: San Diego State University Alternative Loan Counseling**

San Diego State University created an online “alternative loan counseling” process, which students must complete before the school will certify a private student loan.

Appendix A: U.S. Department of Education "Self-Certification" Form<sup>61</sup>

## Private Education Loan Applicant Self-Certification

OMB No. 1845-0101  
Form Approved  
Exp. Date 02-28-2013

**Important:** Pursuant to Section 155 of the Higher Education Act of 1965, as amended, (HEA) and to satisfy the requirements of Section 128(e)(3) of the Truth in Lending Act, a lender must obtain a self-certification signed by the applicant before disbursing a private education loan. The school is required on request to provide this form or the required information only for students admitted or enrolled at the school. Throughout this Applicant Self-Certification, "you" and "your" refer to the applicant who is applying for the loan. The applicant and the student may be the same person.

**Instructions:** Before signing, carefully read the entire form, including the definitions and other information on the following page. Submit the signed form to your lender.

### SECTION 1: NOTICES TO APPLICANT

- Free or lower-cost Title IV federal, state, or school student financial aid may be available in place of, or in addition to, a private education loan. To apply for Title IV federal grants, loans and work-study, submit a Free Application for Federal Student Aid (FAFSA) available at [www.fafsa.ed.gov](http://www.fafsa.ed.gov), or by calling 1-800-4-FED-AID, or from the school's financial aid office.
- A private education loan may reduce eligibility for free or lower-cost federal, state, or school student financial aid.
- You are **strongly** encouraged to pursue the availability of free or lower-cost financial aid with the school's financial aid office.
- The financial information required to complete this form can be obtained from the school's financial aid office. If the lender has provided this information, you should contact your school's financial aid office to verify this information and to discuss your financing options.

### SECTION 2: COST OF ATTENDANCE AND ESTIMATED FINANCIAL ASSISTANCE

If information is not already entered below, obtain the needed information from the school's financial aid office and enter it on the appropriate line. Sign and date where indicated.

- A. Student's cost of attendance for the period of enrollment covered by the loan \$ \_\_\_\_\_
- B. Estimated financial assistance for the period of enrollment covered by the loan \$ \_\_\_\_\_
- C. Difference between amounts A and B \$ \_\_\_\_\_

**WARNING:** If you borrow more than the amount on line C, you risk reducing your eligibility for free or lower-cost federal, state, or school financial aid.

### SECTION 3: APPLICANT INFORMATION

Enter or correct the information below.

Full Name and Address of School \_\_\_\_\_

Applicant Name (last, first, MI) \_\_\_\_\_ Date of Birth (mm/dd/yyyy) \_\_\_\_/\_\_\_\_/\_\_\_\_

Permanent Street Address \_\_\_\_\_

City, State, Zip Code \_\_\_\_\_

Area Code / Telephone Number Home ( ) \_\_\_\_\_ Other ( ) \_\_\_\_\_

E-mail Address \_\_\_\_\_

Period of Enrollment Covered by the Loan (mm/dd/yyyy) From \_\_\_\_/\_\_\_\_/\_\_\_\_ to \_\_\_\_/\_\_\_\_/\_\_\_\_

If the student is **not** the applicant, provide the student's name and date of birth.

Student Name (last, first, MI) \_\_\_\_\_ Student Date of Birth (mm/dd/yyyy) \_\_\_\_/\_\_\_\_/\_\_\_\_

### SECTION 4: APPLICANT SIGNATURE

I **certify** that I have read and understood the notices in Section 1 and, that to the best of my knowledge, the information provided on this form is true and correct.

Signature of Applicant \_\_\_\_\_ Date (mm/dd/yyyy) \_\_\_\_\_

2/12/2010

<sup>61</sup> U.S. Department of Education. 2010. *Education Loan Applicant Self-Certification Form*. DCL ID: GEN-10-01. <http://www.ifap.ed.gov/dpcletters/GEN1001.html>. Accessed March 10, 2011.

## SECTION 5: DEFINITIONS

**Cost of attendance** is an estimate of tuition and fees, room and board, transportation, and other costs for the period of enrollment covered by the loan, as determined by the school. A student's cost of attendance may be obtained from the school's financial aid office.

**Estimated financial assistance** is all federal, state, institutional (school), private, and other sources of assistance used in determining eligibility for most Title IV student financial aid, including amounts of financial assistance used to replace the expected family contribution. The student's estimated financial assistance is determined by the school and may be obtained from the school's financial aid office.

A **lender** is a private education lender as defined in Section 140 of the Truth in Lending Act and any other person engaged in the business of securing, making, or extending private education loans on behalf of the lender.

A **period of enrollment** is the academic year, academic term (such as semester, trimester, or quarter), or the number of weeks of instructional time for which the applicant is requesting the loan.

A **private education loan** is a loan provided by a private education lender that is not a Title IV loan and that is issued expressly for postsecondary education expenses, regardless of whether the loan is provided through the school that the student attends or directly to the borrower from the private education lender. A private education loan does not include (1) An extension of credit under an open-end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling; or (2) An extension of credit in which the school is the lender if the term of the extension of credit is 90 days or less or an interest rate will not be applied to the credit balance and the term of the extension of credit is one year or less, even if the credit is payable in more than four installments.

**Title IV student financial aid** includes the Federal Pell Grant Program, the Academic Competitiveness Grant (ACG) Program, the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, the Leveraging Educational Assistance Partnership (LEAP) Program, the Federal Family Education Loan Program (FFELP), the Federal Work-Study (FWS) Program, the William D. Ford Federal Direct Loan (Direct Loan) Program, the Federal Perkins Loan Program, the National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) Program, and the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program. To apply for Title IV federal grants, loans, and work-study, submit a Free Application for Federal Student Aid (FAFSA), which is available at [www.fafsa.gov](http://www.fafsa.gov), by calling 1-800-4-FED-AID, or from the school's financial aid office.

## SECTION 6: PAPERWORK REDUCTION NOTICE

**Paperwork Reduction Notice:** According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a currently valid OMB control number. The valid OMB control number for this information collection is 1845-0101. The time required to complete this information collection is estimated to average 0.25 hours (15 minutes) per response, including the time to review instructions, search existing data resources, gather and maintain the data needed and complete and review the information collection.

*If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to:* U.S. Department of Education, Washington, DC 20202-4651.

*If you have any comments or concerns regarding the status of your individual submission of this form, contact your lender.*



Appendix B: Alternative Loan Processing Certification Form, Loyola University of New Orleans<sup>62</sup>



Office of Scholarship s and Financial Aid

[www.loyno.edu/financialaid](http://www.loyno.edu/financialaid)

E-Mail: [finaid@loyno.edu](mailto:finaid@loyno.edu)

### Alternative Loan Processing Certification

Student Name: \_\_\_\_\_ CWID or SS #: \_\_\_\_\_

Private alternative loan programs have grown in popularity in recent years. We encourage families to explore their eligibility for all federal loan programs before turning to this resource. In most cases, Federal Student Loans will provide you with more beneficial terms and conditions, including a lower annual percentage rate charged on the principal and fewer and lower fees.

To date, we have not received your processed *Free Application for Federal Student Aid* ("FAFSA"). This is the basic form that you need to complete to apply for all Federal and most State student financial aid programs (including student loans). Recent federal legislation mandates increased protection for student loan borrowers. Please complete the following and return this form directly to our office so that we can document your wishes for audit purposes. Please choose one of the following processing options.

- \_\_\_\_\_ Please immediately continue with the processing of my private, alternative loan. I **do not** intend to complete the *FAFSA* form. I have sufficient financial resources available to me that I am comfortable borrowing solely through private, non-federal loan programs.
- \_\_\_\_\_ Please suspend processing of this private loan application until you receive my processed *FAFSA*. I understand that you will calculate my eligibility for all federal aid programs once you receive my processed *FAFSA* and then you will post the information to my student account on **Loyola's Online Records Access System, "LORA"** at <https://lorasec.loyno.edu/>. After I review this information, I will contact you if I still need this loan to supplement any federal aid offered.

\_\_\_\_\_  
Student Signature / Date

December 2007

GradAltLoan\_NoFAFSA

<sup>62</sup> Loyola University of New Orleans. 2010. *Alternative Loan Processing Certification Form*. <http://www.loyno.edu/financialaid/system/files/Alternative-Loan-Certification-Form.pdf>. Accessed December 3, 2010.

## Appendix C: San Diego State University Alternative Loan Procedures

### Overview

Systems team downloads ELM Commonline report of **certifications pending review** and **disbursements received** from ELMweb during daily batch transmissions. Systems imports file(s) to database SA500.

Systems generates the following automated daily reports to be posted in Public

(These lists may be combined into a single report)

**Alternative\_Loans\_Awaiting\_Certification\_ccyymmdd**

**Alternative\_Loans\_Incomplete\_ccyymmdd**

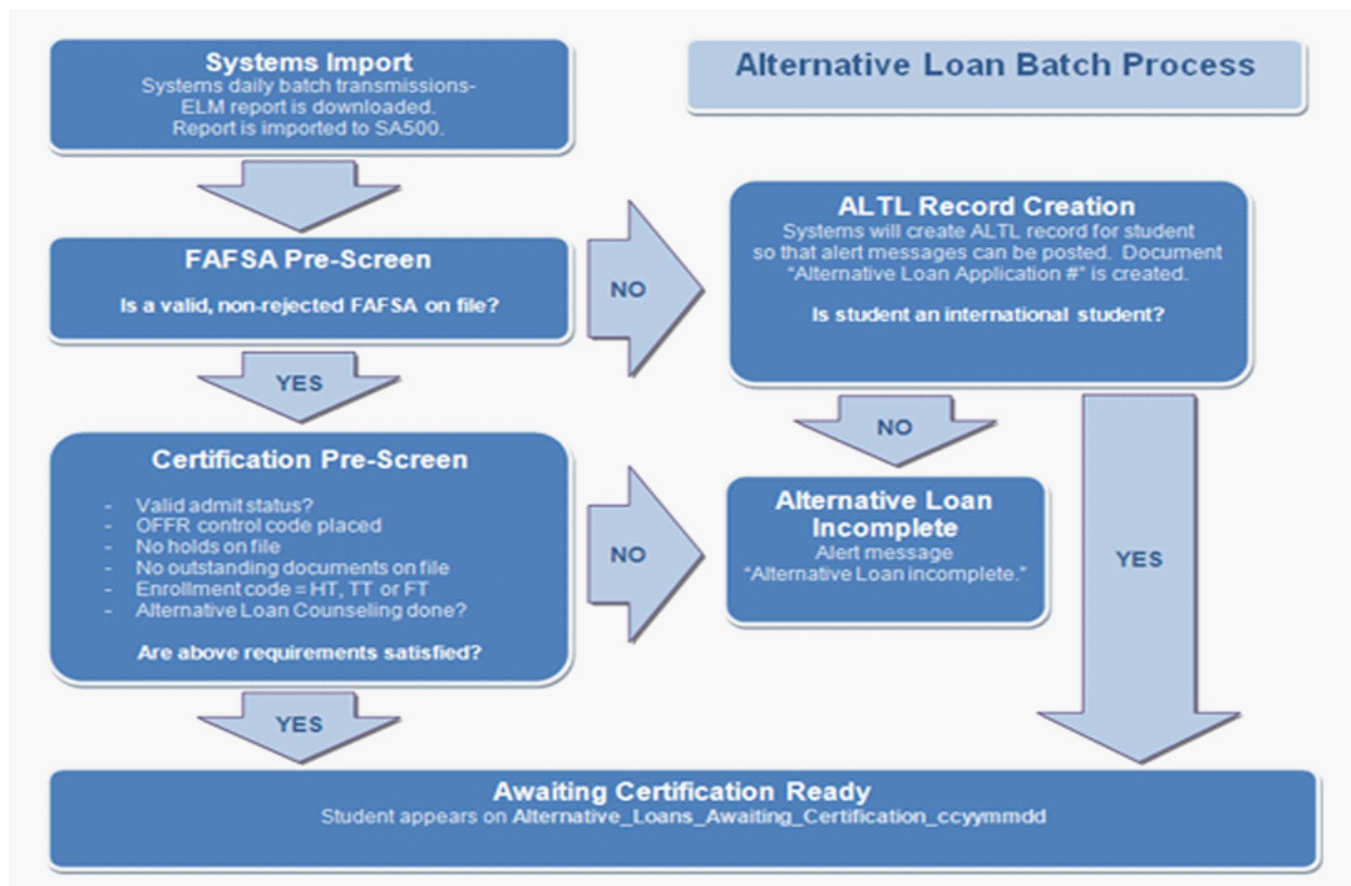
**Alternative\_Loans\_Certification\_Expired\_ccyymmdd**

**Alternative\_Loans\_Disbursements\_Received\_ccyymmdd**

As new certification requests are imported into Rix, systems will post document codes and alert messages to students who have FAFSA records. An automatically generated Alert message will acknowledge receipt of the certification request, provide estimated processing time, and inform the student of the requirement to complete **Alternative Loan Counseling** before the loan is certified.

The alternative loan coordinator reviews lists to certify any eligible loans awaiting certification, disburse funds received, and reject records on ELM for loans incomplete over 45 days.

### Alternative Loans Batch Flowchart (graphic)



## Alternative Loans Batch Flowchart (descriptive)

### Systems Import:

Systems daily batch transmissions- ELM report is downloaded.

Report is imported to SA500.

System will determine the appropriate academic year to assume the alternative loan is for based on the date it is imported:

The cut-off date for the current academic year will be the last day of final exams for the spring semester in mid-May. If a record is imported on or before that day, systems will assume the loan is for the current year, and it will be processed normally. Records received after the last day of spring finals for a given school year will be assumed to be for the upcoming year. These records will go through the normal process (Alternative Loan Counseling, pre-screen, etc) but will not be processed until August unless the student self-identifies needing the loan for summer.

### Daily alternative loan screening cycle

Before beginning the daily screening process, the system will check the **Unique Loan ID** to see if the loan record has already gone through review. If the loan has been reviewed already, then a corresponding ALT# document code will have been created in "Received - Pending" status. The **Unique Loan ID** will be placed by the system in the document memo field. If an ALT# document with the **Unique Loan ID** for the loan record has already been placed, and the document status is no longer in "Received - Pending" status (meaning the alternative loan coordinator has already reviewed the file manually), then the system will ignore the loan record. If the ALT# document with the **Unique Loan ID** exists and the document status is still "Received – Pending," then the loan record will go through the daily cycle specified below.

### FAFSA Pre-Screen:

For each student- is a valid, non-rejected FAFSA on file?

If YES, go to **Certification Pre-screen**, if NO, go to **ALTL Record Creation**.

### ALTL Record Creation:

Systems will create ALTL record for student so that alert messages can be posted.

For each student, an "Alternative Loan Application #" is posted to the documents screen. If Alternative Loan Application 1 already exists, create Alternative Loan Application 2. If Alternative Loan Application 2 already exists, create Alternative Loan Application 3, and so on. The document code will follow the naming convention "ALT#", where # = 1, 2, 3, etc. The system will always post the ALT# document in "Received - Pending" status. The alternative loan coordinator will update the document status to "Received - Incomplete," "Received - Cancelled," "Received - Ineligible" or "Received - Processed" as needed.

Systems will check to see if it is an international student (ES Summary, Misc: "Visa student"). If they have no valid record and they are not an international student, they will appear on the **Alternative\_**

**Loans\_Incomplete\_ccyymmdd** report. If they are an international student, they will be immediately placed on the ready to process list.

Is student an international student (“Non US Citizen/Visa Student” per ES)?

If YES, go to **Awaiting Certification Ready**, Systems will post **International Certification Request Received AidLink** message (see “**System Generated Messages**” below).

If NO, go to **Alternative Loan Incomplete**, Systems will post **Certification Request Received AidLink** message (see “**System Generated Messages**” below).

### Certification Pre-Screen:

For each student, an “Alternative Loan Application #” is posted to the documents screen. If Alternative Loan Application 1 already exists, create Alternative Loan Application 2. If Alternative Loan Application 2 already exists, create Alternative Loan Application 3, and so on. The document code will follow the naming convention “ALT#”, where # = 1, 2, 3, etc. The system will always post the ALT# document in “Received - Pending” status. The alternative loan coordinator will update the document status to “Received - Incomplete,” “Received - Cancelled,” “Received - Ineligible” or “Received - Processed” as needed.

Systems will check to see if the Alternative Loan Counseling requirement has been met. See **Alternative Loan Counseling** below for details on this process.

Systems will post **Certification Request Received AidLink** message (see “**System Generated Messages**” below).

Systems will check to see if the following parameters are met:

Valid admit status?

- OFFR control code placed?
- No holds on file (exceptions: NSLD, CITVER)
- No outstanding documents on file?
- Enrollment code = HT, TT or FT for the current semester?
- Alternative Loan Counseling complete?

If YES, go to **Awaiting Certification Ready**, if NO, go to **Alternative Loan Incomplete**.

Alternative Loan Incomplete:

Systems will send alert message “**Certification Request Incomplete**” (if not already placed on file). System will continue to check record daily for completed FAFSA since the Alternative Loan Application has been posted. The system updates the document status to “Received - Incomplete.” System will send the “**Certification Request Incomplete**” message to the student (see “**System Generated Messages**” below).

**[Process stops here]**

### Awaiting Certification Ready:

Systems will include student on **Alternative\_Loans\_Awaiting\_Certification\_ccyymmdd** report, generated daily. The system updates the document status to “**Received - Incomplete**.” System will send the “Certification Request Incomplete” message to the student (see “**System Generated Messages**” below).

[\[Process stops here\]](#)

### Alternative Loan Counseling

Systems will check to see if the **Alternative Loan Counseling** document has been placed on the documents screen. If not, the document will be placed in status “Outstanding- needed.” The document code is ALTC. This document will also appear on AidLink under **Incomplete Documents** as “Alternative Loan Counseling Required.” Alternative Loan Counseling is posted as a requirement for all students seeking a certified private student loan (except international students, who are ineligible for federal loans). When the student completes Alternative Loan Counseling on AidLink, the AidLink descriptor will change to “Alternative Loan Counseling Completed” and the document on Rix will change to “Received-Accepted.”

Alternative Loan Counseling is completed by the student on AidLink. The process explains information such as the differences between federal and private student loans, what SDSU requires before completing a loan certification request, and our policies and procedures regarding private loans. By completing Alternative Loan Counseling, the student also is able to access the **Private Education Loan Applicant Self Certification** (see below).

### Private Education Loan Applicant Self Certification

Beginning February 14, 2010, the Higher Education Opportunity Act of 2008, title x, regulation z, requires all lenders to collect a Private Education Loan Applicant Self Certification form before making a disbursement of any private education loan, whether certified by the school or not. Schools are required to make the form and the information needed to complete it available to any student who requests one, though they may also obtain the form from their lender. SDSU will make the Applicant Self Certification form available upon completion of Alternative Loan Counseling. Students who apply for certified private loans will be required to go through Alternative Loan Counseling automatically, and will therefore have access to the form once it is complete.

Students who apply for non-certified loans and who request the Applicant Self Certification form will be referred to the alternative loan coordinator. The alternative loan coordinator will create an ALTL record and post the Alternative Loan Counseling document as a requirement. The alternative loan coordinator will also place a hold on the student’s file to determine the amount of the non-certified loan in case they later complete a FAFSA and apply for federal and state aid. Once the student completes Alternative Loan Counseling they will have access to the Applicant Self Certification form.



### Report details

#### **Alternative\_Loans\_Awaiting\_Certification\_ccyymmdd**

(Columns: lastname, firstname, Red ID, amount requested, lender name, request received date, ENTR completion date, Visa Student)

This report will run daily and list cumulative students with alt loan certification requests that have not yet been processed. Students will appear on the list each time they appear in a new (dated, non cumulative) batch report from ELM. Students will only be included on the report if they are eligible to be certified. Once the student's loan is processed it will drop off this list. Students will be considered to be "eligible to be certified" if they meet the following parameters:

- Valid admit status
- OFFR control code placed
- No holds on file for the current semester (exceptions: NSLD, CITVER)
- No outstanding documents on file
- Enrollment code = HT, TT or FT for the current semester
- Alternative Loan Counseling complete

Note- these requirements do not apply to international students who apply for private loans.

#### **Alternative\_Loans\_Incomplete\_ccyymmdd**

(Columns: lastname, firstname, Red ID, amount requested, lender name, request received date, and asterisks for each of the following columns: Admit, OFFR, Holds, Documents, Enrollment, Counseling)

This report will list students for whom a certification request was received, and who do not meet any one of the criteria required to appear on the **Alternative\_Loans\_Awaiting\_Certification\_ccyymmdd** report.

#### **Alternative\_Loans\_Certification\_Expired\_ccyymmdd**

(Columns: lastname, firstname, Red ID, amount requested, lender name, request received date)

The alternative loan coordinator will review this list periodically to expunge certification requests that have remained incomplete/ineligible to certify for over 45 days since receipt. Each record will be reviewed individually to ensure it is still incomplete/ineligible and that appropriate notification was sent to the student.



## Alternative\_Loans\_Disbursements\_Received\_ccyymmdd

(Columns: lastname, firstname, Red ID, net amount received, gross amount received, orig fee, lender name)

This report will run daily and list students with alt loan disbursement record report received from ELM. The alternative loan coordinator will review this list daily to disburse any alternative loan funds received.

## System Generated E-mail Messages

### Private Loan Application Received (ALTE):

**Subject:** The Office of Financial Aid and Scholarships has received your private loan application

The SDSU Office of Financial Aid and Scholarships has received your private, alternative loan application.

You need to log into your account on AidLink to view your status and read any messages we may have left for you. If this is the first alternative loan you have applied for this academic year, you will need to complete required Alternative Loan Counseling before your loan will be certified. When the loan is certified, it will appear on your financial aid offer.

Use your SDSU Red I. D. and university password to logon to AidLink at our Web site: [www.sdsu.edu/financialaid](http://www.sdsu.edu/financialaid).

## System Generated Alert Messages

### Certification Request Received (ALTR):

**Subject:** Your private student loan application has been received

The Office of Financial Aid and Scholarships has received a certification request for a private student loan or "alternative loan" from an outside lender.

Before your loan can be processed, you must complete online **Alternative Loan Counseling** required by the Office of Financial Aid and Scholarships. Your loan will not be certified until this counseling is completed. There are also other requirements that must be met before an outside loan can be processed. These requirements are detailed in Alternative Loan Counseling.

Current turnaround time for processing alternative loans, once **Alternative Loan Counseling** and other requirements are met, is approximately two weeks. You will be notified when the loan is certified and forwarded to the lender.

You can complete Alternative Loan Counseling by clicking the link under Incomplete and Outstanding documents on your AidLink account.

### Certification Request Incomplete (ALTI):

**Subject:** Unable to process your private student loan- PLEASE READ

The Office of Financial Aid and Scholarships has received a certification request for a private student loan or “alternative loan” from an outside lender.

This message is to inform you that the loan cannot be processed as of yet, because one or more requirements of the Office of Financial Aid and Scholarships have not yet been satisfied. Before the Office of Financial Aid and Scholarships will certify an alternative loan, the following requirements must be met:

- You must be admitted and regularly matriculated to a degree granting program at SDSU. Open University coursework does **not** satisfy this requirement.
- You must be enrolled at least half time (6 credits or more per semester for bachelors degree and teaching credential students, 5 credits or more per semester for graduate students).
- You must have a valid, non-rejected FAFSA (Free Application for Federal Student Aid completed and released to the Office of Financial Aid and Scholarships. You can apply for financial aid using the FAFSA at [www.FAFSA.gov](http://www.FAFSA.gov)
- You must have an Award Notification from the Office of Financial Aid and Scholarships on AidLink.
- You must have no outstanding or incomplete documents to submit (Check “Financial Aid Documents” on the front page of your AidLink account).
- You must have no holds on your file (Check “Financial Aid Holds” on the front page of your AidLink account).
- You must have completed Alternative Loan Counseling on AidLink. You can complete Alternative Loan Counseling by clicking the link under Incomplete and Outstanding documents on your AidLink account.

Please note that these your alternative loan will not be certified until the above requirements are met, whether your lender requires them or not. We will review your account regularly, and your alternative loan application will automatically come up for review once the above requirements are met. If your file is still incomplete after 45 days, your alternative loan application will be cancelled by SDSU.

**International Certification Request Received (ALTF):**

**Subject:** Your private student loan application has been received

The Office of Financial Aid and Scholarships has received a certification request for a private student loan or “alternative loan” from an outside lender.

Current turnaround time for processing alternative loans is approximately two weeks. You will be notified when the loan is certified and forwarded to the lender.

**Alternative Loan Rix Details screen**

(to be added later)

### [Appendix D: San Diego State University Alternative Loan Counseling](#)

## Required Alternative Loan Counseling

The Office of Financial Aid and Scholarships has received a certification request for an alternative loan for you from a private lender.

We require that you complete this online Alternative Loan Counseling session before we will certify a private loan for a given year. We require this, even though your lender may not.

Once you have completed Alternative Loan Counseling for the current school year, you will not have to complete it again if you apply for another private loan in the same academic year. However, you will have to complete Alternative Loan Counseling each new academic year that you apply for an alternative loan.

Alternative Loan Counseling is not the same as Entrance Loan Counseling required for Federal Direct Student Loans. Completing the required counseling for one type of loan does not satisfy the requirement to complete counseling for other loans. If you are receiving both federal and private student loans, you must complete both entrance counseling sessions.

Once you have completed Alternative Loan Counseling, we will check your application for completeness and send you a message if there are other steps you need to take before your alternative loan can be certified. Regularly check your e-mail and AidLink accounts for messages.

This counseling session will take 10 to 15 minutes.

**Once you begin, DO NOT LOGOUT until you have completed Alternative Loan Counseling.**

When you have completed the entire Alternative Loan Counseling session, the final screen will state **"You have completed Alternative Loan Counseling."**

**Begin ►**

## Introduction

Alternative loans are borrowed through private lenders by students who need to find another source of financial assistance. We do not recommend or endorse the use of alternative loans but recognize this is an option for you.

You may borrow up to SDSU's approved cost of attendance, excluding what you are eligible to receive from financial aid and scholarships, including grants, work study and federal student loans.

### Private loan versus federal loan

Unlike federal student loans, alternative loans are not regulated or monitored by the U. S. Department of Education. Private lenders set the interest rate which is **variable** (the rate can go up or down any time after you borrow it). Processing fees may be higher than federal loans. Deferment provisions, if any, and terms of repayment vary with each lender. Federal student loans have a low, **fixed** interest rate, and processing fees, deferments and terms of repayment are set by the government.

### Information SDSU certifies

In certifying your eligibility for the alternative loan, we must specify certain information, such as:

- the loan period (the academic year you will attend)

- disbursement dates and amounts (you will receive half in the fall and half in the spring)
- cost of attending SDSU for the specified loan period
- your class level
- amount of financial aid awarded, and your remaining eligibility (cost of attendance minus awarded aid)
- that you are making satisfactory academic progress, as defined by the Office of Financial Aid and Scholarships

Continue ►

## Requirements for Certification of Alternative Loans at SDSU

Before we will certify any private loan, there are certain requirements you must meet.

- You must be **admitted** to a degree granting program at SDSU. Open University coursework does **not** satisfy this requirement.
- You must be enrolled at least half time each semester (6 units for undergraduate and teaching credential students; 5 units for graduate students).
- You must have a valid (not rejected for errors) **FAFSA** (Free Application for Federal Student Aid) completed and released to SDSU. Instructions are on AidLink.
- You must have an **Award Notification** from the Office of Financial Aid and Scholarships on AidLink. If you have applied for financial aid using the FAFSA but have not yet been awarded, you may have incomplete or outstanding documents, or there may be a hold on your financial aid record.
- You must have **no outstanding or incomplete documents** to submit (check Financial Aid Documents in your AidLink account).
- You must have **no holds** on your financial aid record (check Financial Aid Holds in your AidLink account).
- You must have **at least \$1000 of unmet need** (defined as your cost of attendance minus other student loans, grants and other resources, not including PLUS loans).
- You must be making **satisfactory academic progress**, as defined by the Office of Financial Aid and Scholarships.
- You must complete **Alternative Loan Counseling**.

**Note: We will not certify your alternative loan until you meet these requirements. This is true whether your lender requires them or not.**

We will review your account regularly, and your alternative loan application will automatically come up for review once you meet all of these requirements.

Continue ►



### Federal Student Loans

You have other borrowing options to assist you with your college costs. Nearly every student is eligible for Federal Direct Subsidized and/or Unsubsidized Student Loans and you should consider taking advantage of these loans.

#### Federal student loans have several advantages

- Usually, they have a lower processing fee.
- They have a **fixed interest rate** that will never increase. With a low fixed interest rate, you will repay less over the life of the loan.
- Subsidized loans have a fixed interest rate of 4.5% for 2010-11 (5.6% for 2009-10). The interest does not begin to accrue until you go into repayment 6 months after you graduate or drop below half-time enrollment.
- Unsubsidized loans have a fixed interest rate of 6.8% that you pay while you are enrolled or it accrues and capitalizes if you choose to defer repayment.

#### Alternative loan terms are different from each private lender

- They have a **variable interest rate** based on the credit score and other factors of you or your cosigner.
- The variable interest rate may be low now, but can change every year or even every few months. If you consider that you will be repaying your loan over a period of 10 to 20 years, it is likely that a variable interest rate loan will eventually be higher than the fixed interest rate offered by federal loans.

We recommend you activate your maximum eligibility for Federal Direct Subsidized and/or Unsubsidized Student Loans before using an alternative loan as a last resort.

Your eligibility for federal student loans is calculated when determining eligibility for alternative loans **whether you accept the federal loans or not.**

**Continue ►**

### Other Federal Loans

If you are a dependent undergraduate student, your financial aid award may also include Federal Direct Parent PLUS Loan. Your award may include a Grad PLUS Loan if you are enrolled in a master or doctorate program. PLUS loans have a 7.9% fixed interest rate.

Like other federal loans, repayment of these loans can be deferred until after graduation. For Federal Parent PLUS Loans, this is a fairly new option. Prior to July of 2008, parent loans had to be repaid during college. If this was one of the reasons you decided to pursue an alternative loan, you may want to reconsider taking a PLUS loan to meet your remaining cost.

Unlike other federal education loans, a Parent PLUS or Grad PLUS Loan that has not been activated will be deleted from your award and will **not** be counted in determining your eligibility when we certify your alternative loan.

**Continue ►**

## Other Information About Alternative Loans

### Alternative loan processing timeline

In early August we begin certifying alternative loans for the academic year. We advise you not to apply for alternative loans for the academic year until July, after you have activated your federal loans.

Credit checks performed by lenders may be valid for 60 days or less, so do not to apply too early or the credit check may expire before we begin certifying loans.

### Sponsor loans

A few lenders offer “sponsor loans” in which a parent or other third party is the primary borrower rather than the student. SDSU does not participate in third party loans and will **not** complete certification requests for these loans. Student Account Services will not release alternative loan funds to you if you are not the borrower, nor will they release funds to any parent or third party borrower.

**Continue ►**

## Disbursement of Alternative Loans

Alternative loans are disbursed:

- no earlier than the start of the semester, and
- after you are enrolled at least half time (6 units for undergraduate or teaching credential students; 5 units for graduate students).

Alternative loans are disbursed in two equal parts, the first half in the fall semester, the second half in spring. **You cannot receive more than half of the loan total in the fall semester.** An exception is made for students enrolled only in the fall semester.

If you plan to graduate fall semester or for any reason you will not attend spring semester, contact us after completing this counseling session. Your financial aid award for spring will be canceled and the alternative loan will be certified for fall only.

### University charges

If you owe registration fees, nonresident tuition, campus housing or for a meal plan, your alternative loan funds will be applied to outstanding charges before any remaining amount is disbursed to you.

### Direct deposit

You must be signed up for direct deposit (e-Refund) to receive any funds that remain after university charges have been paid. You can sign up for e-Refund on the Student Account Services Web site.

**Continue ►**

## Canceling Your Alternative Loan

After reading this information, if you have decided *NOT* to proceed with your alternative loan, **contact us immediately** and we will cancel and not certify your alternative loan. Also, notify your private lender that you wish to cancel your application.

Once we certify your alternative loan, you may have to return any unwanted funds to your lender with accrued interest if you should later change your mind about the loan.

**Submit Alternative Loan Counseling**

## You Have Completed Alternative Loan Counseling

The system has recorded your completion of required Alternative Loan Counseling. If your application is complete and you have met all other requirements, we will certify your alternative loan and return it to your lender for processing.

You will receive a message on AidLink once we certify the loan. Once the loan has been certified, we will be waiting for the lender to send funds to the university.

Once Student Account Services receives the funds, they will send you an e-mail message when they release funds to pay university charges or directly deposit funds to your designated bank account.

## Applicant Self-Certification Form

Before your lender can disburse funds to the school for you, Federal law requires that you complete a **Private Education Loan Applicant Self-Certification** form and submit it to your lender.

Select the button below to print your Student Self-Certification form. Parts of the form will already be completed with information from your financial aid record. Complete the remaining sections of the form and submit it **to your lender**. Do not submit the form to SDSU.

If your lender already provided you with their version of this form, you are not required to submit this version.

You will also be able to print this form later from the **Completed Documents** section of your AidLink record.

**Print my Self-Certification form**

[Return to the main AidLink screen.](#)

[Sign up for direct deposit](#) on the Student Account Services Web site